# AN ANALYSIS OF THE DELAY IN ADOPTING ACCRUAL ACCOUNTING SYSTEMS IN THE FEDERAL GOVERNMENT

David Gary Emery

# AN ANALYSIS OF THE DELAY IN ADOPTING
# ACCRUAL ACCOUNTING SYSTEMS
# IN THE FEDERAL GOVERNMENT

BY

David Gary Emery

Bachelor of Science in Education

Miami University, Ohio, 1961

A Thesis Submitted to the School of Government and Business Administration of The George Washington University in Partial Fulfillment of the Requirements for the Degree of Master of Business Administration

May, 1971

Thesis directed by

Michael G. Gallagher, C.P.A., J.D.

Associate Professor of Accounting

# TABLE OF CONTENTS

CHAPTER I

# INTRODUCTION

## Statement of the Research Question and Subsidiary Question

The First Hoover Commission in 1949 recommended use of the accrual method of accounting in maintaining Government accounts. The Hoover Report highlighted a major deficiency that some managers had begun to realize during the war and in the immediate years following. The traditional "cash" basis of accounting simply did not provide sufficient or reliable data to aid management.

The 1950 Budget and Accounting Act, implementing the Hoover Commissions accounting recommendations, failed to specifically mention or require accrual accounting. Many experts; however, have interpreted the legislative language requiring "effective control of receipts, funds, expenditures, and other assets" as a mandate for accrual systems. Any doubt was cleared up by the 1956 Amendments to the 1950 Act. Accrual Accounting became a statutory requirement for all Federal agencies.

Between 1964-1968, the House Committee on Government Operations held four hearings and issued two reports on the progress being made by agencies in implementing accrual systems. The hearings revealed considerable foot dragging in complying with the earlier legislation. The interest shown by Congress stirred action on the part of some of the agencies.

Additional impetus was provided in 1967 by the President's Commission

on Budget Concept recommendation that the Federal Budget be unified and stated on an "accrued expenditure" basis by Fiscal Year 1971. A prerequisite to converting the budget was the establishment of supporting accrual accounting systems. President Johnson personally endorsed the Commissions recommendation and the development of accrual systems. Subsequently, President Nixon published a personal memorandum urging due haste in conversion of accounting systems.

The facts show that in spite of the legislation, the recommendations of high level commissions, the urging of a powerful House committee, and the personal interest of two President's that accrual accounting systems have as yet not been satisfactorily developed in all Federal agencies. Largely for this reason, the accrued expenditure budget has been deferred, first until Fiscal Year 1972 and currently to 1973.

Although the General Accounting Office no longer keeps statistics on the formal approval of systems in operations, data on approvals of accounting principles and systems design and published reports and articles make it obvious that many agencies have encountered serious obstacles (e.g., accruals of constructive deliveries and Federal grants) in making the necessary system changes. There is also evidence that accrual accounting is still being resisted by both internal and external sources. Recently, the Defense Blue Ribbon Panel recommended against accrual accounting, excepting working capital funds. Other attacks have been leveled by the House Appropriations Committee.

Fifteen years after making accrual accounting a statutory requirement and long after adopting the practice as a standard of business accounting, the question and research topic of this paper is:

Why has uniform adoption of modern accrual accounting systems in the Federal Government been delayed?

In order to answer this central question, it will be necessary to research and answer the following subsidiary questions.

1. What are the applicability and potential benefits of accrual accounting to the Federal Government?
2. What has been the history and development of accounting concepts used in Government?
3. What has been the role of the Executive Branch in developing the accrual concept?
4. What has been the Congressional position in the evolution of accrual systems?

## Purpose of the Study

There are several purposes to be accomplished by this study. The organization for Federal accounting that has evolved through the years will be examined. A major contention that will be developed is that the structure for accomplishing accounting changes and improvements is wrong as the result of Congress having been more interested in politcal questions of maintaining power and jurisdiction than in the solution of rudimentary issues.

The paper will also show that elements within Congress have often acted contrary to encouraging the development of accrual systems and that well meant efforts have often had opposite effects from those intended. The emphasis of the Appropriations Committee on obligations in the budget process will be cited as a major deterrent to development of accrual accounting. The interest of the House Committee on Government Operations in better accounting will be seen as sometimes generating premature and partial efforts on the part of the agencies.

The General Accounting Office will be shown to have caused considerable delay in improvements as the result of the vague wording of principles, failure

to initially obtain understanding and cooperation of agencies, and an overly complicated systems approval procedure.

It will also be demonstrated that some agencies have strongly resisted or been indifferent to change and that in other instances a combination of problems have precluded the full application of accrual concepts. In the later respect, the paper will show that all parties involved have consistently under-estimated the depth of the problems and the time required to solve them, thus resulting in frustration and harassment.

Finally, the paper will show that accrual accounting has a definite value in government operations, not only in those few areas in government where revenues are earned (e.g., working capital funds), but in all areas where an accurate and consistent measure of costs cannot be determined through cash accounting.

## Scope of the Study

The purpose of the study will be served by reviewing and analyzing the events providing impetus or effecting the move to accrual accounting. Since accounting and budgeting are closely interrelated, it will be necessary to examine budgetary developments impacting in the area of accrual accounting. For the same reason, it will be necessary to outline efforts such as the Joint Financial Management Improvement Program which aimed at improved financial management of which accrual accounting was an integral part. This paper is not intended, however, to be an all inclusive treatment of those subjects. Also the current problems in accrual accounting will be looked at, not so much from the standpoint of fully providing an analysis, but with the intent to emphasize the complexity of the problems, provide a perspective on the status of accrual accounting today, and provide an understanding of how the current

problems relate and in many cases are caused by the manner in which similar problems in the past have been encountered and dealt with.

It is necessary that some of the terms to be used in this analysis be explained.

To begin with, accrual accounting represents a method of accounting wherein entries are made in the accounting records at the time goods and services are purchased or used and as revenues are earned regardless of the time ordered or actually paid for. The accrual concept matches costs and revenues to the period in which actual performance occurs.[1]

There are two terms common to accrual accounting in the Federal Government. Expenditures represent the accounting entry made when goods or services are actually received or when constructive delivery is made. Constructive delivery refers to manufacturing contracts where the contractor has performed work identified to the government, but the end item is not yet physically delivered. Costs differ from expenditures in that they represent the actual utilization of material or equipment on the job. In the case of personnel services and administrative type functions the term is synonymous with expenditures. But where inventories are maintained or equipment is used over a period of time, a distinct difference exists. The expenditure is recorded on acquisition of the material or equipment and the cost only when material is drawn from inventory and used or through depreciation charges on equipment.[2]

The alternate to accrual accounting is cash accounting. This concept involves the recording of financial transactions in two instances. An obligation is recorded when a legal committment to spend is made. In the case

---

[1] General Accounting Office, Frequently Asked Questions About Accrual Accounting in the Federal Government, (Washington, D.C.: Government Printing Office, 1970), pp. 4-5.

[2] Ibid., p. 4.

of items requiring performance over an extended period, the obligation significantly precedes actual performance. In cash accounting a disbursement is recorded when actual cash payments are made. This is also referred to as checks issued. The payment may correspond to the period in which services are actually provided, but more normally follows the period. In a few cases, cash advances result in the disbursement preceding performance.[3]

The following table demonstrates and relates hypothetical accrual and cash transactions for the order, manufacture, receipt, and use of material.

TABLE 1

COMPARISON OF ACCRUAL AND CASH

ACCOUNTING ENTRIES
(in millions)

| | Obligations | Accrued Expenditures | Cash Disbursements | Costs |
|---|---|---|---|---|
| First Year | 2,000 | 300 | 500 | 100 |
| Second Year | | 500 | 200 | 600 |
| Third Year | | 500 | 200 | 600 |
| Fourth Year | | 500 | 300 | 400 |
| Fifth Year | | 200 | 800 | 300 |
| Totals | 2,000 | 2,000 | 2,000 | 2,000 |

The table shows that the totals even out over a five year period; however, considerable deviation in the entries exists between years.[4] The full

[3] Ibid., pp. 2-3.

[4] This example is not held forth as typical of normal accounting transactions. It is designed entirely to emphasize and contrast the differences in accounting concepts.

2,000 million is obligated in the first year representing the acceptance of the contract that sets the wheels of production in motion. The 300 million accrued expenditure figure in the first year represents the portion of the contract actually completed, and delivered including work in process that has been identified to the customer. This figure is initially low reflecting the slack time required to turn up production. Subsequent years reflect leveling off at full production until the final year when the contract is actually completed. The disbursement figure reflects an advance payment to the contractor in the initial year, and irregular progress payments in preceding years. The increased figure in the fifth year reflects final settlement upon successful completion of the contract. Costs are timed to actual utilization of the material and vary between years dependent on job requirements.

## Methodology Used

Primary and secondary data for this paper has been collected from many sources. Much of it has come from governmental publications and documents made available through contacts with the staff offices of various Congressional Committees, the General Accounting Office, the Office of Management and Budget, the Treasury, the Civil Service Commission, the Department of Defense, the Department of Navy, and Headquarters Marine Corps. Several of these offices were also very generous in allowing personal interviews and in answering phone inquiries.

The primary sources of library material were the libraries at the Office of Management and Budget, and the Naval Supply Systems Command. The Army Pentagon, the Marine Corps Command and Staff School, and the George Washington University libraries also yielded information.

The approach adhered to in collecting data was to take notes from written

material on 5' by 7' cards. These notes cross referenced to the source page number. Notes were also taken at interviews and the basic points in the interview were subsequently written out. At the conclusion of the research phase, index cards were reviewed and topical sheets were originated. Any point on an index card referring to a topical category was written down by source and page number. This later enabled quick identification of anything pertaining to a topic.

## Organization of the Study

The paper, because of its primary emphasis on the evaluation of historical events leading to the present, will be generally organized on the chronological presentation of milestone events. This should also eliminate some of the redundancy that otherwise would occur if each of the subsidiary questions were examined within a separate chapter.

A separate summary will be included in each chapter and will provide a review of the events of that period and a background to analyzing the subsequent chapters.

Chapter II covers early accounting developments, the initial interest in accrual accounting, and the recommendations and legislation resulting from the First and Second Hoover Commissions.

Chapter III primarily concentrates on evaluating the results obtained after more than a decade of operations under the 1950 legislation, as reflected in the hearings conducted by the House Committee on Government Operations between 1964 and 1968.

Chapter IV discusses the recent emphasis on accrual accounting and problems encountered since the 1967 President's Commission on Budget Concepts.

The final chapter is reserved for stating conclusions to the research questions.

## CHAPTER II

## EARLY BASIS FOR GOVERNMENT ACCOUNTING AND THE FIRST AND SECOND HOOVER COMMISSIONS

### Early Accounting Developments

Accrual Accounting is a relatively new concept to the Federal Government. Prior to the end of World War II, government accounts were maintained on a cash basis. Cash accounting dealt strictly in obligations and disbursements. This basis did not allow for a reliable measurement of efficiency and effectiveness since inputs (i.e., the cost of resources utilized) did not consistently relate to outputs in a given period. Cash accounting aimed primarily at assuring that legislated dollar limitations were not exceeded.

The years following the depression and particularly World War II saw a tremendous acceleration in Government expenditures. The expanded government brought large numbers of businessmen into contact with the Federal accounting structure. These individuals were quick to realize that the prevailing cash basis of accounting simply did not provide adequate data for planning and controlling operations. Accrual Accounting had long been accepted as a standard of business accounting and the new Government managers were used to the cost reports that such accrual systems could provide.[1]

The first step in improvement came with the passage of the Corporation

---

[1] Eric L. Kohler and Howard W. Wright, Accounting in the Federal Government (Englewood Cliffs, N.J.: Prentice Hall, Inc., 1956), pp. 4-6.

Control Act of 1945. Up to this point, the voluminous independent Government Corporations emerging from the depression years had been free of Congressional jurisdiction. The Act brought "business type" accrual budgets and procedures to the corporations and made them subject to Congressional review.[2]

The Legislative Reorganization Act of 1946 resulted in the creation of the Senate Committee on Expenditures in the Executive Department (currently the Committee on Government Operations).[3] One of the first efforts of this Committee was to examine the duplication that existed between the Government Accounting Office, the Treasury, and the Bureau of the Budget in reporting the monthly financial status of Departments. This duplication stemmed from a difference in opinion as to the definition of "obligations". The Committee took the role of mediator in bringing the three agencies together to study and resolve their differences. In late 1947, the three agencies agreed that the joint effort should be conducted on a broader scope with the aim of improving overall Government accounting and reporting. This initiative began the Joint Accounting Program which was officially announced by the Comptroller-General in October 1948.[4]

## First Hoover Commission

The First Hoover Commission was created in 1947 primarily to review the structural organization of the Federal Departments and Bureaus. Its report on Budgeting and Accounting published on February 15, 1949, was the first comprehensive review of Government Budget and Accounting procedures since the studies resulting in the 1921 Budget and Accounting Act.

---

[2]U.S. Congress, Senate, Committee on Government Operations, Financial Management in the Federal Government. S. Doc. 11, 87th Cong., 1st sess., 1961, p. 23.

[3]Ibid., p. 28.

[4]Ibid., pp. 37-43.

The Hoover Commission reviewed the basis, procedures, and organization for Government budgeting and accounting. After due consideration of the facts involved, the Commission made thirteen recommendations including the following:

1. . . . the budgetary concept of the Federal Government should be based upon functions activities and projects [designated a performance budget].
2. An Accountant General be established under the Secretary of the Treasury with authority to prescribe general accounting methods and enforce accounting procedures . . . subject to the approval of the Comptroller General . . .
3. The accrual basis of accounting should be applied to both revenues and expenditures.[5]

## Recommendations for Accountant General

The second recommendation resulted in the greatest furor. The 1921 Budget and Accounting Act establishing the General Accounting Office had given the Comptroller-General authority to " . . . prescribe the forms, systems, and procedures for administrative appropriation and fund control . . ." This arrangement was felt necessary to provide the Congress the necessary control and overview of executive operations. The General Accounting Office involvement in determining the form of accounting systems was furthered by the Federal Property and Administrative Act of 1949 which included provisions for the Comptroller-General to "prescribe principles and standards of accounting for property."[6]

The role of the General Accounting Office in prescribing form and standards for accounting systems had come under attack prior to the Hoover Commission. In 1932, then President Hoover, attempted to pass through Congress Executive Order 5959, which would have transferred to the Bureau of the Budget "the powers and duties now exercised by the General Accounting Office, which relate

---

[5]Report of the Commission on Organization of the Executive Branch of the Government, Budgeting and Accounting, Herbert Hoover, chairman (Washington, D.C.: Government Printing Office, 1949), pp. 8, 39 and 43.

[6]Kohler and Wright, Accounting, pp. 78-9.

the designing, prescribing and installation of accounting forms, systems and procedures . . ."[7]

President Hoover's rationale was summed up in the message accompanying the bill.

> It is not; however, a proper function of an establishment created primarily for the purpose of auditing Government accounts to make the necessary studies and to develop and prescribe accounting systems involving the entire Field of Government accounting.[8]

The order was rejected by resolution of the House Committee on Expenditures in the Executive Department, who saw the order as an attack on a vestige of Congressional power.

An outside viewpoint was provided when the U.S. Chamber of Commerce performed a special study of the Federal accounting organization and subsequently recommended the creation of a General Accounting Office directly responsible to the President for establishing accounting principles and prescribing systems. The Chamber at that time stated:

> Since the Comptroller-General is not under Executive control, . . . the Executive is deprived of one of the most essential means of establishing effective supervision over expenditures, namely a satisfactory accounting system under Executive Control. Moreover, the Comptroller-General is now in the anomalous position of auditing his own accounting.[9]

Another independent review of the accounting structure was conducted in 1936 by the Brownlow Commission, appointed by President Franklin D. Roosevelt. The Commission disclosed that:

> Administration Officers have found it not only necessary to go to their superior officers for the approval of plans, but also to the office of the Comptroller-General for the approval of the legality of forms and procedures.[10]

---

[7] Financial Management in the Government, p. 12.

[8] Ibid.

[9] Ibid., p. 15.

[10] U.S. Congress, Senate, Committee on Expenditures in the Executive Departments, To Improve Budgeting and Accounting, and Auditing Methods in the Federal Government. Hearings, before the Committee, 81st Cong., 2d. sess., 1950, p. 170.

The Brownlow Commission cited and endorsed the ideas expressed in the Chamber of Commerce Study; however, the recommendations that evolved differed slightly in that in lieu of a separate accounting office, the Brownlow Commission advocated placing accounting responsibilities with the Treasury and redesignating the Comptroller-General and the General Accounting Office as the Auditor General and the General Auditing Office respectively.[11]

These recommendations and others were incorporated into House and Senate Bills and hearings were conducted. The recommendation to divorce the General Accounting Office from its control of accounting systems was particularly difficult for Congress to digest. This and other problems resulted in no action being taken on the proposed legislation.

As an offshoot, a select Senate Committee was appointed to investigate the organization of the agencies to determine if overlap of functions existed. This committee, in turn, contracted the Brookings Institute to conduct an exhaustive study of the financial organization in Government. The conclusions of this study called for redefining the accounting role of the General Accounting Office and redesignating it the Office of Auditor and Settlements. Again, no positive action was forthcoming from the Congress.[12]

Finally in 1939, President Roosevelt issued Executive Order 8248 transferring the Bureau of the Budget from the Treasury to an independent status. No mention of the accounting organization was made. According to Lindsay C. Warren, a member of the House of Representatives at that time and later Comptroller-General, the executive order would never have passed Congress unless President Roosevelt had been persuaded to drop all references to the General Accounting Office.[13]

---

[11] Financial Management in Government, pp. 15-16.

[12] Ibid., pp. 18-20.

[13] Budgeting and Accounting and Auditing Methods, Hearings, p. 47.

This then was the background to which the First Hoover Commission made its recommendation for an Accountant General in the Treasury.

Actually, the final recommendation was a compromise between the line taken in the Commission Task Force Report and the views of several members of the Commission proper.

T. Coleman Andrews headed the Task Force whose seven members also constituted the Committee on Federal Government Accounting of the American Institute of Accountants. Andrews was serving as the Comptroller of Richmond, Virginia, at the time and had credentials that included service as a Virginia State Auditor, and Director of the General Accounting Office's Corporation Audit Division.[14]

The Task Force spent fourteen months reviewing the Accounting structure and found

1. There is no formal accounting plan for the Government as a whole.
2. No one is charged with the responsibility for developing such a plan.
3. There is no one who would have power to install such a plan, and compel compliance with its provisions if one were developed.
4. The statutes make no provision for either a complete accounting system or a chief accounting officer to direct accounting activities.[15]

The Task Force also embraced the theory that the Comptroller-General in prescribing the form of accounts and establishing standards was placed in a conflicting role by being a party to administrative decisions that he later had to audit and report on.[16]

These findings led to the recommendation that an Accounting Office be established within the Executive Offices of the President with the responsibility

---

[14] Ibid., p. 104.

[15] Task Force, Reports to the Commission on Organization of the Executive Branch of the Government, Fiscal Budgeting and Accounting Activities, (Washington, D.C.: Government Printing Office, 1949), p. 89.

[16] Ibid., p. 90.

of establishing and maintaining an accounting system appropriate to the Government needs, and that the duties of the Comptroller-General be redefined to more fully realize his auditing capacities.[17]

The Task Force recommendations met head on with divergent viewpoints of several members of the Hoover Commission, particularly Congressional members, who saw the recommendations as an assault on Congress and a change that would jeopardize the constructive efforts of Joint Accounting Program then underway.

The final recommendation, while advocating creation of an Accountant General, placed this official in the Treasury and made his actions subject to the approval of the Comptroller-General. Even this compromise was not agreed to by several members of the Commission. John L. McClellan and Carter Manasco filed a separate opinion in which the Commission was accused of exceeding its authority in recommending alterations to the structure and role of an agency of Congress. They stated that the Comptroller-General had been given the right to prescribe accounts in the 1921 Budget and Accounting Act, the 1949 Federal Property Act, and by language in the last several Independent Office's Appropriations Acts that required General Accounting Office approval of property accounting procedures before funds could be provided for systems development. Also, they saw no conflict of interests in the Comptroller-General designing or prescribing accounting systems that he later must audit. This was reported to be a common practice with public accounting firms. Finally, they held forth the Joint Accounting Program as the best hope for constructive improvement in Government Accounting.[18]

Vice Chairman Dean Acheson also filed a dissent in which he propounded his belief that the Hoover recommendation would raise insoluble jurisdictional

---

[17] Ibid., p. 92.

[18] Budgeting and Accounting, pp. 47-54.

questions and that the Joint cooperative effort was getting the job done.[19]

On the other extreme, Commissioners James H. Rowe, Jr. and James K. Pollack submitted separate statements in which they basically supported the views of the Task Force requiring a separate Accounting Office in either the Bureau of the Budget or the Treasury. According to Rowe, the Budget and Accounting Act of 1921 was based on the false premise that the legislature needed to control both the auditing and the accounting. He felt accounting should be an administrative function, and endless delays resulted when the administrator had to submit his systems and actions to the General Accounting Office for approval. The Hoover proposal did not solve the problem since the proposed Accountant General was responsible to the Comptroller-General for his performance. This created duplication and tended to more actively involve the Comptroller-General in day to day management decisions which was a violation of the separation of power doctrine.[20]

Of interest to later analysis of accounting development, both the Commission report and the dissenting statements of Rowe and Pollack expressed considerable skepticism as to the merits of the Joint Accounting Program as a permanent measure for corrective and guiding action in accounting programs. The Hoover report, while commending the voluntary endeavor, expressed concern that more than voluntary correctives were needed. Rowe and Pollack opinioned that the flaws in the structure were too great for the voluntary efforts to long endure.[21]

---

[19] Ibid., p. 19.

[20] Ibid., pp. 55-63.

[21] Ibid., pp. 38 and 63.

## Accrual Accounting Recommendation

The recommendation for accrual accounting was not given any particular prominence in the Hoover Commission report. It was lumped with several items in "Other Recommendations" which were simply "endorsed".[22] However, the Task Force dwelled extensively on the subject.

Describing the existent cash basis of accounting the Task Force stated

> We think it is obvious that a basis of accounting that never shows the Government's true revenues and expenses for any year and that does not provide positive control of assets, liabilities and appropriations, is thoroughly inappropriate to the Government's needs.

In opting for accrual accounting, the Task Force continued,

> . . . on the accrual basis, the books would show not just cash receipts and disbursements, but also essential facts concerning the financial affairs of the Government . . . assets, liabilities, revenue, the extent to which the budget estimates of the revenues have been realized, the rate at which the appropriations have been spent, the true available balance of each appropriation and the accumulated costs of operations. Positive control of assets, liabilities, estimates of incomes, appropriations, revenues and expenses would be maintained. . . .[23]

The report then related to Congress by making the strong assertion that unless an integrated accrual accounting system was established there could never be hope of Congress intelligently maintaining control of the purse strings. The financial reporting system which Congress relied on for information was described as ponderous, obfuscated, and generally unsatisfactory. The Budget process was bogged down by special requests for information that data from the existing accounting system could not supply.[24]

---

[22]Ibid., pp. 43-44.

[23]Ibid., pp. 103-4.

[24]Ibid., p. 104.

Hiring and Retaining Qualified Accountants

Before departing the recommendations of the Hoover Commission, it is worthy to note that the Task Force saw a particular problem building in the hiring of sufficient qualified accountants and auditors to do the mammoth job ahead. The Group urged that personnel policies be adopted that would assure the attraction and retention of top people. Their recommended efforts included reclassification of accountants and auditors to properly compensate those who were professionally qualified and prompt recognition and advancement of outstanding personnel.[25] These recommendations were not included in the Commission report.

Legislation Resulting From the First Hoover Commission

Senate 2054

The Senate was the first Congressional branch to incorporate the Hoover recommendations into legislative form. The proposed legislation, S 2054, contained no specific requirement for accrual accounting. Hearings on the bill began in early 1950, and were remarkably revealing as to emotional and political opposition that had built to the Hoover recommendation for an Accountant General. The great majority of the testimony and statements submitted to the Committee on Expenditures in the Executive Departments dwelled on this single subject. Senator John L. McClellan, who was already on record as opposing the proposal, chaired the hearing.

Herbert Hoover led the support for the bill. Pointing out the near universal condemnation of Government Accounting, he cited the Corporation Control

---

[25]Task Force, Budgeting and Accounting Activities, p. 110.

Act of 1945 as the legislative precedent in establishing executive responsibility for budgeting and accounting and the General Accounting Office's responsibility for auditing. He acknowledged the compromise inherent in S 2054 and the Hoover Report and stated that some structural change was needed to solve a problem that had existed for twenty to twenty-five years and was still not solved.[26]

Task Force member Rowland Egger filed a statement in which he also favored the bill "since Congress was in no mood to deal with fundamental problems of Accounting." He felt acceptance of the compromise measure would facilitate later changes.[27]

T. Coleman Andrews opposed the Hoover proposal because it didn't go far enough. In supporting and reiterating the Accounting Policy Committee's work on the Task Force, Andrews contended that placing the Accountant General in the Treasury and making him responsible to the Comptroller-General was probably making a bad situation worse. The choice of the Treasury was poor because one of the greatest problems in the past had been to confuse Treasury "cash" accounting with management accounting. Eventually, under the proposed arrangement, the two would become entwined. Andrews further stated,

> The bill simply creates another bureau with no authority, no power and very little responsibility beyond that of a purely clerical set up. . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . .
> The question that must be answered is are we going to organize our government on the basis of admiration for individuals or on fundamental principles. . . . Human frailities being what they are our next Comptroller-General may not be as qualified as Warren.[28]

Andrews also attacked the Joint Accounting Program as a diffusion of responsibilities and lacking in permanence. He cited the fact that the Joint

---

[26] Budgeting and Accounting and Auditing Methods. Hearings, pp. 218-230.

[27] Ibid., p. 145.

[28] Ibid., pp. 106-9.

Program was not begun until after the Hoover Commission was appointed and had announced it would review the accounting establishment in Government, the inference being that action was stirred only under the duress of being faced with investigation.[29] As related by Andrews, one of the Hoover Commission members had approached him and expressed agreement with the Task Force, but was afraid of giving too much authority to the Administration in office. At this point, Senator Mundt interrupted the proceedings to indicate that he too did not trust the administration. Andrews then summarized:

> In other words there are two problems in accepting the Task Force recommendations (1) a head of General Accounting Office whom Congress does not want to offend and (2) Administration that could not be trusted to install and maintain proper accounting systems.[30]

Lining up against the bill, but for entirely different reasons were the General Accounting Office, Treasury, and Bureau of the Budget. The General Accounting Office led by Comptroller-General Warren was particularly irate. Various statements submitted by the General Accounting Office stressed six points: (1) the Hoover Commission exceeded its authority, (2) the recommendation was a renewal of previous attacks on the General Accounting Office, (3) Congressional Control would be weakened by the proposed reorganization, (4) there was nothing unusual in the Comptroller-General establishing a system which he must later audit, (5) the General Accounting Office auditing would in fact be made more difficult by the separation of functions, and (6) the Joint Program was the best means of accomplishing the desired accounting improvements.[31]

Comptroller-General Warren was liberal in his use of emotional and political innuendoes. In a statement before the Senate Committee, Warren first

---

[29] Ibid., p. 15.

[30] Ibid., p. 30.

[31] Ibid., pp. 4 and 5.

outlined his past background as a Representative in the House and the role he played in easing President Roosevelt's 1939 Executive Order thru Congress. He asserted that the General Accounting Office had continuously served the taxpayers thru its accounting role by assuring full disclosure of pertinent operating facts. He cited the "notable progress" already made under the Joint Accounting Program and the personal leadership he had provided the effort. He disclosed the creation in 1948 of an Accounting Systems Division within the General Accounting Office to spearhead the General Accounting Office efforts towards better accounting. He stated that the bill [S 2054] represented ". . . the age-old fight to shift from Congress to the Executive the control over expenditures of public funds." He alledged that the bill "strikes at the vitals of the General Accounting Office and its independence." This last rhetoric led Senators Hoeys and Mundt to personally praise Warren, and to announce "nothing should be done to interfere with the General Accounting Office's conduct as an independent agency of Congress."[32]

In testimony delivered towards the conclusion of the Hearings, Warren addressed Hoover's appearance before the Committee.

> Hoover is merely renewing and continuing his assaults on the General Accounting Office, but he fails to take account of progress in the last eighteen years, especially the last nine. Roosevelt was bitterly antagonistic and hostile too. This is the same old thing without a single new idea. The bill would leave the General Accounting Office your agent with no effective voice in this very important function.[33]

Later, Warren continued, "The General Accounting Office stands as the last great bulwark for the protection of the American taxpayer against the illegal and erroneous expenditures of the public substance." And in reference to the Joint Program, "We must cast aside all the old suspicions, back-bitings,

---

[32]Ibid., pp. 47-55.

[33]Ibid., pp. 233-35.

and in some cases hatred." Finally, in one last appeal to Congressional chauvinism, "The giants on both sides of the aisles and at both ends of the Capitol . . . knew what they were doing" in giving the General Accounting Office controls over accounting systems in the 1921 Budget and Accounting Act.[34]

Warren also used the occasion to cite various letters he had received against the proposed legislation and for the Joint Program. Among these were several letters from people with experience in Government accounting including Eric Kohler, formerly Department of Defense Comptroller and noted author on Government Accounting.[35]

Frank H. Weitzel, Assistant to the Comptroller-General, appeared before the Committee and generally echoed his boss's views. He stressed that "the day to day results of the Joint Program were more than sufficient to justify and assure its continuance." His testimony elicited the response from Chairman McClellan, "We might retard progress by legislating something experimental"[36]

Walter Frese, the Chief of the General Accounting Office's newly created Accounting Systems Division, expressed enthusiasm to the Committee about the "grass roots spirit" prevailing among agencies towards the Joint Accounting Program.[37]

The Bureau of the Budget views on S 2054 were expressed in letter and thru the personal appearance of Frederick J. Lawton, Assistant Director of the Bureau. The Bureau's line was that the coordinated effort (Joint Accounting Program) would produce more meaningful results than legislation, and that the proposal was a change and restriction on the Comptroller-General's authority.[38]

---

[34] Ibid., p. 241.

[35] Ibid., pp. 238-39.

[36] Ibid., pp. 182-83.

[37] Ibid., pp. 207-09.

[38] Ibid., pp. 32-43.

The Treasury also was against the change in Accounting responsibilities. Their expressed concern was that the accounting systems rested on sound principles and meshed with central Treasury reporting requirements. The present arrangement and the Joint Accounting Program were held forth as the best way to accomplish the task.[39]

Other views submitted to the commission included statements in favor of the legislation authored by the Chamber of Commerce, the Pennsylvania Economy League Inc., and Lloyd Morey, Certified Public Accountant, and author of a Government Accounting text in the 1940's.

As would seem a forgone conclusion based on statements made by committee members during the hearing, the bill approved out of the committee was modified to delete the provisions for an Accountant General.

In a report published in 1961, the Senate Committee on Government Operations claimed the provision for the separate Accountant General was "strongly opposed by a majority of those who testified before the committees of both houses."[40] While this claim might possess merit, if reviewing strictly numbers, it gives little consideration to the source of the opposition, the interests involved, or the merits of the arguments. The facts show that included among those who opposed the bill were a number of people who thought the bill did not go far enough in divorcing the General Accounting Office from control of accounting systems and procedures. If these people are counted, as they rightly should be, as for the basic principle expressed in S 2054, that the executive should have greater unencumbered responsibility for accounting systems and procedures, the numerical game would appear to have been won by opponents of the status quo.

---

[39] Ibid., pp. 96-7.

[40] Financial Management in the Government, p. 65.

Also the great majority of those opposing the bill on the principle that the present organization would accomplish the job (the General Accounting Office, Treasury, the Bureau of the Budget), were working as a part of the system. While their arguments warranted careful consideration, they could logically be suspected of protecting vested interests. The testimony, particularly of the General Accounting Office representatives, bear out this assumption.

The Senate Committee, in choosing their course, disregarded the Hoover and Task Force recommendations, the forewarnings provided by several previous Commissions, and the hard fact that after twenty-nine years, the present accounting structure was acknowledged by all concerned to be unsatisfactory.

## Budget and Accounting Act of 1950

The House waited until the Senate had introduced the modified legislation and then introduced an identical bill. The Budget and Accounting Procedures Act was passed on September 12, 1950. The final bill contained provisions for a performance budget based on unit costs and workloads, and called for "Acccounting systems that provided full disclosure, adequate information for operating and budgeting, and effective control over receipts, expenditures, funds, property and other assets."[41] It is these provisions of the Act that many experts have today claimed constituted a legislated mandate for accrual accounting. The rationale of proponents of this theory is that only the accrual basis could provide the necessary cost data to relate to output and to provide effective control.[42]

The bill also added to the Comptroller-General's responsibilities for

---

[41] Ibid., p. 83.

[42] Carl W. Tiller, "Why Accrual Accounting," Defense Management Journal, V (Summer, 1969), p. 29.

accounting by giving him authority to prescribe principles, standards, and related requirements for Accounting. At the same time, the Executive was charged for the first time with the responsibility for maintaining accounting systems and producing financial reports. The Comptroller-General was to consult with the Treasury, the General Accounting Office, and agencies before prescribing procedures and principles. He was also to cooperate and assist the agencies in developing their systems. Finally, the Act endorsed and called for continuance of the Joint Accounting Program.[43]

National Security Act, 1949

The National Security Act of 1949 was the result of still another Hoover Commission report (No. 8). Enactment of the legislation authorized the creation of working capital funds to finance military inventories and commercial type activities.[44] These "revolving" funds were dependent for continued operations on revenues generated from customers; therefore, it was imperative that reliable accounting systems be implemented in their support. Today the revolving funds are one of the few areas within the Department of Defense operating on a full accrual basis.

Accounting Memorandum No. 1

In 1952, the General Accounting Office published Accounting Memorandum No. 1 to fulfill that portion of the Budget and Accounting Act pertaining to the prescription of principles. Comptroller-General Warren in a transmittal letter stated that the "principles" were tentative in that they represented the best views disclosed thru the Joint Accounting Program, and would be modified

---

[43] Financial Management in the Government, p. 83.

[44] Ibid., p. 76.

as experience dictated. Warren emphasized that the Secretary of the Treasury and the Director of the Bureau of the Budget had participated in the development of the Memorandum as called for in the Budget and Accounting Act.[45]

The principles themselves were more of a general discussion of the legislative background to the Memorandum and a justification of good accounting practices than a firm basis or directive for establishing accounting systems. Examples of the conciliatory and vague language used are as follow. The memorandum was termed a "guide." As already mentioned, comments on the memorandum were "invited". An approach "worthy of careful consideration" in supporting budgets was the use of accrued expenditures supplemented by an analysis of undelivered orders. Accrual techniques should be adapted to the "useful purposes which the data will serve." Refinement of systems should weigh "the advantages to be gained against possible added record keeping." Accrual accounting should be used where results to management will be "significantly improved." Use of perpetual inventory records "should be weighed against the expense of extra record keeping." Costs of freight handling, and storage charges should be included in material costs, "except when the expense of allocation these additional charges outweighs the benefits.[46] Little was written to require the agencies to justify deviations from the broad principles.

The Memorandum outlined supposed advantages to accrual accounting as compared with the cash accounting.

> The accrual basis . . . reflects a more accurate picture of financial condition and makes the income and expense or receipt and expenditure figures more meaningful. The use of the accrual basis materially strengthens financial control . . . and is essential in the development of cost accounting. If accurate unit costs are to be developed,

---

[45]General Accounting Office, Accounting Principles Memorandum No. 1, (Washington, D.C., 1952), letter of transmittal.

[46]Ibid., pp. 2, 6, 17, 19, 22, and 32.

> it is essential that expenditures be reflected in the period in which work was performed. . . . Only under the accrual basis is it possible to arrive at the cost of goods sold or services rendered to be matched against the revenues earned . . . during a given period.[47]

## Second Hoover Commission

Three years after the issuance of Accounting Memorandum No. 1, the Second Hoover Commission convened and again reviewed the Federal Accounting structure.

This time, the Task Force assigned to do the detailed investigation and research work was headed by J. Harold Stewart, a former President of the American Institute of Accountants. Recommendations made by the group included:

1. That executive agency budgets be formulated and administered on a cost basis. (Recommendation 10)
2. That the executive budget and congressional appropriations be in terms of estimated annual accrued expenditures . . . (Recommdation 11)
3. That for management purposes, cost based operating budgets be used to determine fund allocations within the agencies . . . (Recommendation 14)
4. That there be established under the Director, a new staff Office of Accounting in the Bureau of the Budget headed by an Assistant Director for accounting with powers and duties as follows
   (1) To develop and promulgate an overall plan for accounting . . . consistent with broad policies and standards prescribed by the Comptroller-General. These broad policies and standards should continue to be developed in cooperation with the executive branch.
   (2) To expedite, guide, and assist in the introduction of modern accounting methods. . .
   (3) To set reasonable but definite time schedules for performance and to watch progress.
   (4) . . . to assist actively in the selection, training and retention of capable personnel
   (5) To report at least annually to the Director of the Bureau with respect to the status of accounting (Recommendation 15)
5. That the selection of agency Comptrollers and the building of competent accounting organizations . . . through the selection, training and retention of capable personnel be an important phase of the guidance and help to be given by the Assistant Director for Accounting in the Bureau of the Budget. (Recommendation 17)

---

[47]*Ibid.*, p. 21.

6. That Government Accounts be kept on an accrual basis . . . (Recommendation 2)
7. That as a general policy, reliance be placed upon appropriate accrual and cost accounting techniques as a primary means for aiding the effective management of Government activities. (Recommendation 22)[48]

The recommendation for an accrued expenditure budget was a radical departure from the traditional "obligation" budget; however, the recommendation had been previously made by the Cooper Committee which had performed a study in 1954 on the fiscal organization within the Department of Defense.[49]

The Task Committee believed that enacting appropriations on an accrued expenditure basis would provide Congress with better control of expenditures. "Obligation authority" was found deficient in the following areas.

(1) The authority extended beyond the year for which enacted. Once appropriated, there was no control of the amount used in any one year, short of Congressional rescission.

(2) Obligation Authority requested did not relate to resources to be used in performing the job since inventory balances and other resources purchased in another year could be used in the program.

(3) The obligation basis provided an incentive to use all the authority before the date it would lapse. This served to support the agency request for funds in future years.

(4) The definition of obligation had been interpreted differently with the result that there was no consistency between agencies as to what constituted an obligation in the accounting records or budget requests.

(5) Control over the deficit or surplus was ineffective as the result of

---

[48]Task Force, Report to the Commission on Organization of the Executive Branch of the Government, Budget and Accounting (Washington, D.C.: Government Printing Office, 1955), pp. 3-5.

[49]Ibid., p. 39.

concentrating on obligations which had no bearing to the year in which cash payments were made.[50]

Changing to an accrued expenditure budget erquired provision of a separate "Contracting Authority" to assure suppliers and contractors that payment for services was available. Adoption of the budget would permit the Congress to review and grant each years program in its entirety, including the portion for which contracting authority had been provided in a previous year.

The Task Force also extensively re-examined the Federal Accounting structure. As it saw the situation, the 1950 Budget and Accounting Act had established responsibilities on the part of the General Accounting Office and the Agencies, but had left the Executive Branch with no really effective leadership. The General Accounting Office was found to have performed commendably, especially through its Accounting Systems Division, but it did not have the administrative responsibility or occupy the proper position to ensure that the agencies adopted proper accounting systems. The Joint Accounting Program had belied its name. The Comptroller-General had dominated the leadership role. The Bureau of the Budget and Treasury had been followers, particularly the Bureau. The accomplishments of the program while noteworthy were a "piecemeal effort" as compared to the overall need for accounting improvements. These facts led the Force to recommend that central stimulus was needed within the Bureau of the Budget.[51]

The Hoover Commission report published in 1955 embraced recommendations for: (1) cost based budgets, (2) administering budgets on a cost basis, (3) stating the budget on accrued expenditures, (4) establishing a Staff Office of Accounting in the Bureau of the Budget, (5) promoting the development of

---

[50] Ibid., pp. 34-6.

[51] Ibid., pp. 52-9.

competent accounting organizations thru selection, training, and retention policies, and (6) maintaining accounts on an accrual basis.[52] The rationale used in support of the Hoover Commission recommendations were basically taken from the Task Force.

The proposal for an accrued expenditure budget was the only one to cause disagreement among the Commissioners. Clarence J. Brown, a member of the House of Representatives, dissented based on the "radical departure from long standing fiscal policy which would require widespread changes in the entire fiscal process." He felt additional studies were required by appropriate Congressional committees.[53]

James A. Farley filed a general dissent criticizing the approach taken to the entire report, which he claimed was the viewpoint of a cost accountant operating in a private commercial enterprise run for a profit. Whereas, Farley acknowledged the appropriate use of this type of business accounting concept, he did not feel an across the board application was appropriate. Referring to accrual accounting, Farley said,

> It does not necessarily provide a measure of the effectiveness of programs which are not primarily related to profit, but to the performance of proper governmental functions. The transition to cost basis' accounting will require tremendous expense and inconvenience and there is insufficient evidence that it will be universally workable.[54]

Chet Holifield, a member of Congress, also wrote a dissent in which he expressed doubt that the recommendations would actually tighten Congressional control and result in improved management and greater economies. Holifield

---

[52]Report of the Commission on Organization of the Executive Branch of the Government Budget and Accounting, Herbert Hoover, chairman (Washington, D.C.: Government Printing Office, 1955), pp. 9, 15, 25, 31, 33, and 38.

[53]*Ibid.*, p. 69.

[54]*Ibid.*, pp. 69-70.

could not see how accrual accounting techniques could be applied across the board with beneficial results. The value of many agencies could not be measured thru cost accounting. "Government is not a profit making organization."[55]

## Amending the Budget and Accounting Act of 1950, Public Law 84-863

The Accounting recommendations of the second Hoover Commission were put in legislative form by S 3199. Only the recommendation for an accrued expenditure budget was dropped from the proposed bill. Senator Frederick G. Payne, author of the bill, indicated that the proposal was omitted because its success depended on the establishment of an adequate accounting base and the ability to program effectively. Payne claimed intentions to draft a bill to carry out the accrued expenditure ideas after the accounting provisions were effective.[56]

The bill included provisions for the development and use of cost based budgets, establishment of accrual accounting systems, and the creation of a Staff Office of Accounting within the Bureau of the Budget headed by an Assistant Director of Accounting.[57]

This last recommendation raised considerable opposition from the three Central Agencies (Treasury, the Bureau of the Budget, and the General Accounting Office).

The Bureau of the Budget objected because it claimed to be in the process of expanding its accounting group to accomplish the objectives sought. The General Accounting Office did not believe legislation was needed for the Bureau

---

[55] *Ibid.*, pp. 70-1.

[56] U.S. Congress, Senate, Committee on Government Operations, *Budgeting and Accounting*, *Hearings* before a subcommittee of the Committee on Government Operations, Senate, 84th Cong., 2d sess., 1956, p. 58.

[57] *Ibid.*, p. 21.

to accomplish the desired results. The Treasury felt the proposed statute would result in an overlap of duties already given the Comptroller-General.[58]

The arguments for a separate Accounting Division in the Bureau of the Budget were led by Senator Wallace F. Bennett, co-sponsor of the bill, and J. Harold Stewart, head of the Task Force. Bennett pointed to a conclusion drawn earlier by the Task Force that a revitalized accounting effort in the Bureau of the Budget would save approximately four billion dollars a year through improved management procedures. He felt that while the Comptroller-General had made considerable progress in the last several years, the new office in the Bureau of the Budget would be a more effective means of improving and tightening systems.[59] Stewart, in turn, spoke to the history of the Joint Program as a reflection of the leadership of the Comptroller-General, but lacking in the display of any real Executive Branch initiative. Since accounting was a tool of management, and the Bureau of the Budget was considered the management arm of the President, this seemed the logical place for the power to be vested. The proper structure envisioned by Stewart would have had the agencies looking to the Bureau of the Budget for accounting assistance and the General Accounting Office reviewing executive performance as opposed to doing the job.[60]

Considerable attention in the hearing was also devoted to the deleted provisions for an accrued expenditure budget. Stewart testified that the problem with obligation authority was that it emphasized utilizing all available funds to justify future requests, and resulted in an administrative problem in administering thousands of allotments (i.e., the distribution of funds to sub agency levels for limited legislative purposes which had to be separately

---

[58] Ibid.

[59] Ibid., p. 64.

[60] Ibid., pp. 66-73.

accounted for). The accrued expenditure budget would provide greater control to Congress and increased flexibility in the operation of agencies. Congress would be made aware of the carry over of inventories and unfilled orders that the agency intended to use in the ensuing year. At the same time, the accrued expenditure concept would eventually lead to administering budgets on broad cost limitations, thus eliminating the use of multiple allotments. Since expenditures and costs related to actual receipt and utilization of material and services, there could be no last minute push to obligate funds.[61]

The General Accounting Office made a plea to include the accrued expenditure recommendation in the legislation.

In a letter to Chaiman Kennedy, Comptroller-General Joseph Campbell [Lindsay Warren was replaced in early 1952] stated,

> It seems reasonable to conclude that the best basic approach to a review of the budget is one which provides for (1) consideration of a proposed work plan or program to be accomplished, (2) what was accomplished in preceding periods and, (3) costs for both in terms of total resources consumed. . . . the budget can then be assessed in terms of (a) costs to be incurred, (b) resources already available in terms of inventories etc., plus carried over funds, and (c) new money or authority needed.[62]

According to Campbell, the advantage to the accrued expenditure concept was that it gave Congress greater control over the level of operations, and it directed attention to mission accomplishment at a minimum cost. He countered the argument that expenditures are the inevitable result of granting obligation authority with the following statement.

> An examination of present day practices in the long lead time area (procurement, construction, and research and development) demonstrates the obvious fallacy of this argument as evidenced by the extensive reprogramming, multitudinous changes in engineering plans and specifications during the period of production. . . . Appropriations on an

---

[61]Ibid., pp. 70-1.

[62]Ibid., p. 17.

> accrued expenditure basis would require a type of continuing budget presentation and would bring out the adequacy of management planning or the lack of it.[63]

The provisions of S 3199 calling for maintenance of accounts on an accrual basis were generally accepted by everyone involved in the Hearings. Implementation of the recommendation were in fact essential to use of cost based budgets as specified in other parts of the bill.[64]

The hearings pointed again to the problem of adequate staffing. Stewart disclosed that his Task Force had found a single super grade civilian employed within the Department of Defense to perform accounting functions. This compared with seven super grade billets on the budget staff.[65]

Upon conclusion of the testimony on S 3199, it was agreed that many of the specifics of the bill could be carried out through administrative action and that no legislative action was required. Included among these provisions was the section requiring a separate Accounting Office in the Bureau of the Budget. Also it was determined that a section should be added requiring submission of an accrued expenditure budget. Consequently, Chairman Kennedy directed the Comptroller-General, the Bureau of the Budget, the Treasury, and members of the staff to redraft the bill. The revised version, S 3897, was passed thru the Senate in June 1956.[66]

By this time, the Bureau of the Budget had acted to create a separate Accounting Office with Percy Rappaport as its first head.[67]

---

[63] Ibid., p. 18.

[64] Ibid.

[65] Ibid., p. 89.

[66] Financial Management in the Government, p. 93.

[67] News release as contained in: U.S. Bureau of the Budget, "Analysis of the Budget and Accounting Report of the Commission on Organization of the Government", Washington, D.C., 1956.

The House considered H.R. 11526 a companion bill to S 3897 during May and June 1956. During the hearings, Clarence Cannon, chairman of the House Committee on Appropriations, and John Taber, ranking minority member of the same committee, leveled broadsides at the provisions for an accrued expenditure budget.

Cannon, in abbreviated testimony laden with emphasis on the guardian of the purse strings role played by his committee, claimed that the four billion savings figure attached to implementation of the Hoover recommendations was without substance. If anything, Cannon stated that the proposal for an accrued expenditure budget would cost the government money because use of "Contract Authority" would be required. The past history of Contract Authority reflected that Congressional review was not as close, thus leading to irresponsible expenditures. Also, the authority preserved rather than eliminated the unexpended balances that carried forward from year to year.[68]

Taber expressed almost identical views. He explained that Contract Authority was easier to get since the appropriation of a firm dollar limitation was a year away. Under questioning from one of the bill's sponsors, he stated that the appropriations committee was already reviewing information on how much was spent each year on funds appropriated from previous years; therefore, the accrued expenditure budget provided no particular advantage in the review of continuing programs. After further questioning, Taber acknowledged that he had no objections to accounting for fund utilization on an accrual basis.[69]

The arguments from the powerful members of the Appropriation Committee was sufficient to sway the Committee on Government Operations. In House Report

---

[68]U.S. Congress, House, Committee on Government Operations, Budget and Accounting, Hearings before a subcommittee of the Committee on Government Operations, House of Representatives, 84th Cong., 2d sess., 1956, pp. 188-89.

[69]Ibid., pp. 191-204.

2734, which accompanied the reported version of H.R. 11526, the Government Operations Committee stated:

> The committee heard strong testimony from the chairman of the Committee on Appropriations of the House and the ranking minority member of that committee objecting to the accrued expenditure device primarily on the ground that it would necessarily lead to Contract authority for programs which extended beyond one fiscal year. It was felt that contract authority weakened Congressional Control, and it would not realize the benefits claimed. On the basis of these objections and the committee's own study, the provision for appropriations on an annual accrued expenditure basis was deleted from the bill.[70]

There is little evidence that the committee conducted any investigation of the expenditure budget question beyond hearing the testimony of Representatives Cannon and Taber.

The amended bill was not agreed to by the Senate. At the conference committee that followed, three Senate members refused to sign the report without the provisions for the expenditure budget included. The other Senate members agreed to signing only after they were assured that the next House session would reconsider the proposal. Public Law 84-863 was enacted in July 1956, and implemented the Hoover recommendations concerning cost based budgets, accrual accounting, and improved property accounting. In the process of compromising the original Hoover proposals, the final legislation concerning cost based budgets was weakened by adding to the requirement the words "to the extent deemed desirable and practicable by the President."[71] This qualification apparently was a result of the Bureau of the Budget stand that cost based budgets would take considerable time to implement.[72]

---

[70]U.S. Congress, House, Improving Governmental Budgeting and Accounting Methods and Procedures, H. Rept. 2734, 84th Cong., 2d sess., 1956, p. 4.

[71]Financial Management in the Government, p. 92.

[72]Letter Percival F. Brundage to Dwight D. Eisenhower as contained in Bureau of the Budget, "Analysis of Budget and Accounting Report", Washington, D.C., 1956.

## Attempt at An Accrued Expenditure Budget

While the legislative background to the accrual accounting controversy is primarily completed with the study of P.L. 84-863, it is necessary to follow the accrued expenditure budget proposal through to its conclusion in order to view the full picture. For the next two years, 1956 - 1958, the fight raged in both houses of Congress.[73] The Senate supported the original Hoover proposal; whereas, the House led by the Appropriations Committee stood fast against anything that would alter the appropriations process. The Appropriations Committee held hearings and published a report in which the following points were made.

1. Contract Authority went all the way back to 1789, and had proved unsatisfactory because of the concepts failure to emphasize the cost implications of starting up a project.
2. The realities of Congress were such that Congressional members did not have time to review the future year implications of a vote for a single year fund request unless the full amount of the project was visible.
3. Congress presently reviewed program accomplishment on multiple year appropriations.
4. If Congress was dissatisfied with the way a program was being carried out, it could rescind the money.
5. It was impossible to compare Congress and the Board of Directors of a business because the size of government and the constant turnover of Congressional personnel made it impossible for members to be knowledgeable of year to year operations.
6. Contract Authority would increase the number of supplemental

---

[73] Financial Management in the Government, p. 28.

budget requests submitted because the same degree of planning and review would not go into granting the authority.

7. Contract Authority would increase administrative costs as the result of imposing a second limitation on agencies which would have to be separately accounted for.
8. The appeal of accrued expenditures and contract authority was an illusion. In reality it was a distinction without difference.
9. There was a tendency to pass over Contract Authority lightly. Once obligations were made there was no choice, but to pay the bill.
10. The carryover balance that accrued expenditures aimed to eliminate was not confined to Appropriations.[74]

In June 1957, the Senate passed a bill through Congress which would have implemented the Hoover accrued expenditure concept unaltered. The House Committee on Government Operations passed a similar bill; however, the language of the bill was amended on the House floor to allow that the accrued budget would be used when the President had determined the establishment of an adequate accrual accounting system, and if the Congress chose to include the limitations in appropriation bills. It was this revised bill that finally passed both houses and was enacted as Public Law 85-759.[75]

The new legislation had an abortive history. In the 1960 and 1961 budgets,

---

[74]The Appropriations Committee's views are expressed in detail in U.S. Congress, House, Committee on Appropriations, Administration Plan to Improve Congressional Control of the Budget, Hearings before a subcommittee of the Committee on Appropriations, House of Representatives, 85th Cong., 1st sess., 1957, pp. 31-39 and the companion committee report, H. Rept. 216, 85th Cong., 1st sess., 1957, pp. 5-8.

[75]Financial Management in the Government, pp. 102-05.

several agencies estimates were submitted with proposed expenditure limitations. Congress in each case, though, rejected exercising their option to appropriate the expenditure limitation. In 1962, Public Law 85-759 expired, and no immediate attempt was made to renew it.[76]

## Summary

The early history and legislative background relating to the move to accrual accounting systems has been established. Entering the 1960's the requirement for accrual accounting had been fully recognized and given statutory weight in the 1956 amendments to the Budget and Accounting Act of 1950.

While the requirements of the law seemed clear, the structure and basic responsibilities for carrying out the legislative intent were obscure. The Comptroller-General had rigidly prescribed forms and procedures until the 1950 Act. Then in a compromise measure that ignored the advice of not only the Hoover Commission, but also findings of past studies and the considerable advice of independent professional accountants, the agencies were given responsibility for implementing accounting systems in accordance with principles and standards prescribed by the Comptroller-General. However, no one in the Executive Branch was charged with the responsibility for providing overall coordination and direction to the program. As a result, the Joint Accounting Program emerged as a substitute device for motivating and leading the Federal accounting program. Even this effort lacked Executive involvement. The Comptroller-General provided most of the impetus to the program. While progress was made under the program, the Second Hoover Commission Task Force was already confirming the suspicions of the First Hoover Commission: that such a cooperative effort could

---

[76] Ibid., pp. 109-10.

not long endure or accomplish the singularity of purpose required.

The Second Hoover Commission stressed the need for establishing central executive direction and believed the Bureau of the Budget to be the logical choice to assume such responsibilities. Under pressure, the Bureau of the Budget created an Accounting Division with an Assistant Director as Head.

The early history of accrual accounting application in Government is revealing in several other aspects.

First, although at this stage in time, accrual accounting per se involved no particular controversy, the concept of the accrued expenditure budget was creating a furor within elements of Congress, particularly the House Appropriations Committee who saw the concept as weakening their control of the appropriations process.

Second, the first attempt of the General Accounting Office to publish Accounting Principles took on a conciliatory and ambiguous note that left a great deal to the interpretation and discretion of the respective agencies.

Third, early problems of staffing were evidenced in spite of warnings by the First Hoover Commission that this was likely to be a critical problem.

Fourth, the role and interest of the Congressional Committees on Government Operation in the form and adequacy of accounting measures was clearly established.

## CHAPTER III

## A REVIEW OF PROGRESS IN DEVELOPING ACCRUAL ACCOUNTING SYSTEMS

### 1964 Congressional Hearings

Although the literature is sparse, the period of the early 1950's apparently saw a push on the part of some agencies to install accrual accounting systems and to accomplish the other financial improvements required by law. The record shows that a large number of accounting systems were submitted to the General Accounting Office for approval during the first half of the 1950's.[1]

The 1956 annual report of the Joint Accounting Program claimed many financial management improvements had been made (e.g., use of forty-six cost based presentations in the 1958 Budget).[2]

In 1957 the new Accounting Office within the Bureau of the Budget published Bulletin 57-5 which directed agencies to review their financial systems in light of the new legislation, and to submit a planned program for improvement. These responses were to be examined by the three Central agencies under the Joint Accounting Program who in turn were to discuss

---

[1] U.S. Congress, House, Committee on Government Operations, _Submissions of Agency Accounting Systems for GAO Approval_, _Hearings_ before a subcommittee of the Committee on Government Operations, House of Representatives, 88th Cong., 2d sess., 1964, pp. 69-75.

[2] Joint Program to Improve Accounting in the Federal Government, _8th Annual Progress Report_, (Washington, D.C.: Government Printing Office, 1956), pp. 3-17.

problems with the agencies in an attempt to expedite the changes required.[3]

That these efforts and the attempt to impose Accrual Accounting Systems on the agencies were not very successful became obvious in 1964 when the House Committee on Government Operations decided to hold hearings on the progress being made. The Comptroller-General had been given the authority in the legislation already described to review and approve accounting systems that met the published standards and principles. In early 1964, Comptroller-General Campbell made it known that only forty-one of the one hundred twenty-eight Civil Departments and one Defense accounting systems had been approved. (See Appendix I) This disclosure led to the first of four hearings held between 1964 and 1968. It should be pointed out that while accrual accounting was not the sole requirement for the General Accounting Office systems approval, it was the central requirement, and the one causing the most difficulty in getting systems approved.

During the 1964 hearing, statements from only the three central agencies (i.e., the General Accounting Office, Bureau of the Budget and the Treasury) and the Civil Service Commission were considered.

The Comptroller-General pointed to several contributing factors to the deplorable condition that existed.

(1) The size, complexity, and changing nature of many Federal Departments complicated devising adequate accounting systems.

(2) Lack of interest by managers in fulfilling accounting responsibilities.

(3) Lack of enthusiasm for changing old procedures.

---

[3] Ibid., p. 7.

(4) Lack of understanding as to how accrual data aided the manager.

(5) Failure to assign sufficient personnel or devote sufficient funds to do the job.

His testimony also highlighted the absence of General Accounting Office's authority to require agencies to submit their systems for approval, and the time required in reviewing and approving a system once submitted. In the latter respect, it was explained that the approval process might take well over a year.[4]

The most revealing testimony was delivered by William J. Armstrong and Timothy E. Russell, both of the Office of Financial Management in the Bureau of the Budget. Armstrong's opening statement cautioned against using the number of systems approved as the only measure of accounting progress. He contended that requirements to continuously update systems in line with new programs and interpretations of related accounting principles considerably delayed systems approved. The delay was also extended by the need to arbitrate differences of opinion with the General Accounting Office and to document system manuals. Armstrong used the Atomic Energy Commission System as an example of the time involved. This system had taken four years to approve from the date it was submitted.[5]

Armstrong cited the increased use of cost based budgets, and claimed that many agencies had begun to question the requirement for use of the budget as the result of the House Appropriations Committee insistence on requiring a second budget on the obligation basis.[6]

He then provided insight to the role the Bureau had taken in Accounting

---

[4] Submissions of Agency Accounting Systems, Hearings, 1964, pp. 6-7.

[5] Ibid., p. 46.

[6] Ibid., p. 43.

development. This resulted from a discussion of some differences in opinion between the agencies and the General Accounting Office. As an example, Bulletin 57-5 had been interpreted by the agencies as requiring the conversion of obligation data to accrued expenditure data on an annual basis in those areas where cost data was not used in day to day operations. The General Accounting Office felt that the conversion should be on a monthly basis, and in 1962 had published a memorandum dictating at least a monthly conversion. Many of the agencies felt the conversion too costly and of no benefit. The agencies were arguing with the General Accounting Office, and in some cases refusing to change over until a trial had proved the change effective and efficient.

This revelation brought a pointed response from the Committee.

> Why doesn't the Bureau of the Budget back up the General Accounting Office and tell the agencies instead of testing and arguing to meet the standards. . . . It seems that the Bureau . . . hasn't taken a firm stand. Don't you have a duty to follow up more vigorously than you have?

Armstrong. I think that the Bureau of the Budget has been supporting the General Accounting Office statement of principles. Last year . . . the steering committees of the joint program met with most the large agencies to talk about these specific things.

Committee Member. Still you allow the agencies to test, to argue about the various standards. What have you done to follow up on this May 19, 1964, letter? [Comptroller-General's letter to Agencies calling attention to the poor status of systems approved.]

Armstrong. No, we haven't taken any action as a result of that. This is a further action by the Comptroller-General to try and speed them up.

Committee Member. Where does the Bureau of the Budget fit in the picture other than meeting in this joint committee? Do you feel you have any responsibility in directing the agencies to comply?

Armstrong. I don't know exactly what you mean by "directing to comply". In our Bulletin 57-5 we laid down the requirements of law; we referred to the General Accounting Office principles; we set our criteria that should be followed by the agencies and we asked for annual reports on progress. Do you mean something in addition to that?

Committee Member. Yes. It would seem to me that if any of the agencies have authority to speed up the operating agencies it is the Bureau of the Budget. Do you feel that is a fair interpretation?

Armstrong. Yes. . . . that is carried out by the Bureau of the Budget through the . . . joint program. . . . We do it jointly since this is a joint program. We do not go off separately and deal with an agency on such problems.

Later on, Mr. Russell continued.

> I think throughout this program we have followed the directive of Congress in section 113-A of the Budget and Accounting Procedures Act of 1950, that the responsibility is on the head of the Department to set up adequate accounting systems. We rely heavily on that. Insofar as the Bureau of the Budget is concerned we have assidiously avoided the situation where we would move in attempt to do the job ourselves.

Committee Member. It seems to be that the agency has the initiative to establish the system. If the system falls short of standards, that something more has to be done. All you fellows have done from that point is continue discussion and persuasion.

Russell. . . . that is exactly what we have done. We have a problem in attempting to assure these people that some of the technical changes we want them to make would really be good for them. . . .

Committee Member. The difference between you and me . . . is that you seem to think they are the final arbitrator of whether their system is good for them.

Russell. In terms of accounting principles this is very true. . . .

At this point, Committee Chairman William L. Dawson reprimanded the Bureau of the Budget representatives.

> We have a new system in our country, because that is the way the laws are supposed to operate. They [agencies] either have a job to do or not do. They are either going to carry out the law or they are not. It is your job to see that the law is enforced. Why don't you be a good policeman?

Armstrong. We are trying to carry out the law. We ask for the target dates.

Dawson in apparent disgust. Fourteen or fifteen years, and they haven't done them yet, and you are still asking them to please comply with the law.[7]

---

[7] Ibid., pp. 53-57.

The testimony by the Bureau of representatives also reflected a part of their problem in enforcing the installation of systems. Armstrong discussed the May 19th Comptroller-General letter in which the General Accounting Office announced that the audit program was being adjusted to encompass a review of the agencies whole financial system. The change in emphasis would result in reports providing information that the Bureau had not had in the past. They had previously relied on the annual reports required by Bulletin 57-5 to obtain information on which to evaluate progress.[8] The disclosure reflected the inadequate staff within the Bureau to conduct any type of on site review or follow up to directives.

Another question addressed was the reasonableness of time schedules in developing and submitting systems for the General Accounting Office approval. Although no direct answer was provided, the Bureau of the Budget implied that three to four years should be sufficient.[9]

The Treasury Department, in appearing before the Committee, outlined their concern for good financial management as related to the need for central reporting, disbursing, and cash management. In this area, the Treasury believed the agencies were doing an effective job. Progress made by the agencies had led the Treasury in 1960 to begin publishing annual financial statements showing liabilities and year end balances of unobligated and obligated, but unpaid appropriations. This data was possible only through use of accrual accounting or the conversion of obligation data. The Treasury acknowledged that some large areas (e.g., Department of Defense) were not complying with the requirements and that others complying were using the conversion formulas and not necessarily using the data in day to day operations.[10]

---

[8] Ibid., p. 48.

[9] Ibid., p. 49.

[10] Ibid., p. 60.

The Treasury advanced an argument for accrual accounting that only cost data provided a significant relation to the period in which work was performed. This relation provided a challenge for management to increase production and reduce cost. If management would realize the potential benefit, accrual accounting would come into being.[11]

Their testimony also stressed that the new General Accounting Office audit procedures would permit greater visibility of the true accounting progress being made. Past reports submitted under the Bureau of the Budget Bulletin 57-5 and compiled into progress reports included in the annual Joint Financial Management Improvement Program report were distorted because they gave only the agencies own evaluations. In the past, the Treasury recognized that the General Accounting Office was the only agency staffed to work on the front lines with the agencies. The Bureau of the Budget and Treasury relied on the written and spoken work.[12]

## House Report No. 179

As a result of the 1964 hearing, the Committee on Government Operations published House Report No. 179 in which it was found:

1. That the provisions of the 1950 Budget and Accounting Act requiring accounting systems to be established in accordance with principles prescribed by the Comptroller-General had not been complied with.
2. An apparent lack of interest existed among agency officials.
3. The Comptroller-General had the right to approve or reject systems. Failure to comply with his determinations constituted a violation of the law.

---

[11] Ibid., pp. 62-3.

[12] Ibid., pp. 67-8.

4. Congress had the right to expect agency compliance with the law and determinations made under the law.
5. Many agencies were operating with inadequate control over Government resources.
6. Agencies had distressingly put accrual accounting into use on a piece meal basis.
7. The Bureau of the Budget had discussed accounting problems extensively with the agencies, but the outlooks for discussion did not seem promising. Some more positive action appeared needed.
8. The Joint Financial Management Improvement Program gave rise to "an unduly rosy description" of the present status of agency accounting systems.
9. The Comptroller-General should have taken steps prior to May 1964 in pressing for systems submissions. It would appear that a policy of direct assistance to delinquent agencies should have been followed.
10. The Civil Service Commission had limited financial training primarily to the Washington area. Efforts to upgrade financial management positions had been late (i.e., 1958). Those agencies most in need of training as indicated by the status reports had shown the least interest.[13]

These findings led the Committee to make recommendations that:

1. The agencies promptly take efforts to establish approved accounting systems, and to establish target dates to be adhered to for submitting systems to the Comptroller-General.

---

[13] U.S. Congress, House, Committee on Government Operations; Submissions of Agency Accounting Systems for GAO Approval, H. Rept. 179, 89th Cong., 1st sess., 1965, pp. 3-6.

2. The Bureau of the Budget and Treasury should take more vigorous action in spurring the submission of accounting systems.
3. The Comptroller-General intensify his review of accounting systems and provide assistance to the agencies in developing systems.
4. Increased emphasis be given to career development programs, and improved techniques for evaluating the quality of candidates for financial management positions.
5. More financial management courses be included in Civil Service general management training.
6. More consideration be given by the agencies to attending financial management courses in civilian institutions.[14]

## 1966 Congressional Hearings

House Report 179 had announced the intentions of the Committee to hold further proceedings in which the agencies would be heard. This led to a hearing in September 1966. Although eighteen months had passed since the first review, the status of approved accounting systems had barely improved. Only fifty-five of the one hundred fifty systems subject to approval or thirty-eight percent were approved. (See Appendix I)

In spite of the intention to get first hand information from the agencies, only the Department of Health Education and Welfare testified. The majority of the time was spent in hearing the new Comptroller-General, Elmer B. Staats, and the Chairman of the Civil Service Commission, John W. Macy.

The Comptroller-General first addressed the areas where the General

---

[14] Ibid., pp. 6-7.

Accounting Office had been found weak by House Report 179. He told how the General Accounting Office had increased the time and effort devoted to reviewing agency financial management matters and his staff had been placed under orders to provide the agencies all encouragement and stimulus possible. The Accounting Policy Staff had been increased from fifty to two hundred fifteen people to work solely with the agencies.[15]

The accounting principles first published in 1952 had been revised in 1965 to take into account the various changes that had been effected by separate correspondence over the years.[16] The new principles will later be examined in some detail.

A review guide "to provide additional assistance to Federal agencies in developing their accounting systems to the point where they are adequate . . ." followed the principles in April 1966. The guide, presented in a series of questions about systems development, provided a step by step guide to the requirements in submitting systems to the General Accounting Office.[17]

Staats then elaborated on new developments since the earlier Hearing. Detailed discussions with the agencies had revealed that one of the most pressing problems arising in complying with the law was the shortage of qualified and trained staff. As a result, the Civil Service Commission had been invited to participate in the Joint Financial Management Improvement Program.[18]

Staats brought to the committee's attention a memorandum to all Federal departments dated May 24, 1966, in which President Lyndon B. Johnson had lent

---

[15]U.S. Congress, House, Committee on Government Operations, Submissions of Agency Accounting Systems for GAO Approval - 1966, Hearing before a subcommittee of the Committee on Government Operations, House of Representatives, 89th Cong., 2d sess., 1966, pp. 3, 4, and 30.

[16]Ibid., p. 7.

[17]Ibid., pp. 8-9.

[18]Ibid., p. 6.

his personal support to the move towards better financial management. Johnson urged that: (1) accounting systems conform to the prescribed principles, (2) a vigorous program of recruiting top financial people be developed, (3) financial reports provide adequate support to the new Government wide Planning, Programming, and Budgeting System, and (4) managers be given the basic tools of cost based budgets and financial reports that assured maximum cost reduction.[19]

Planning, Programming, and Budgeting (PPB) introduced within the Department of Defense in the Early 1960's, had been made a requirement for all agencies in 1965. The system provided a framework for projecting cost estimates in terms of broad programs and available alternatives over an extended period. The establishment of the system provided an impetus to the move towards accrual accounting since to be successful actual program costs had to be reliably collected and compared in the same format programmed.[20]

At the conclusion of Staats' statement, the Committee questioned him on the continued slippage in time limits for submitting systems for approval. Staats claimed that recent meetings with the agencies had resulted in beginnning to get more realistic schedules. Two of the problems in the past had been lack of Presidential interest and doubts on the part of the agencies as to how serious the Congress was. He pointed to the fact that current deadlines did not, except in a few cases, extend beyond 1968.[21]

Turning his attention to the appropriations process, Staats implied that the Appropriations Committee was more concerned with annual authority required than program costs to date. This led Clarence J. Brown of the Committee to ask:

---

[19] Ibid.

[20] Ibid., p. 45.

[21] Ibid., pp. 27-30.

Well, do you think that perhaps the Congress itself may be responsible? In other words, perhaps a part of the resistance of some of the Federal agencies in adopting your approved accounting system is a result of the Appropriations Committees of the House and the Senate not favoring or perhaps not insisting upon the new systems because they are too familiar and comfortable with the old procedures.

Staats replied. Perhaps the interest of the appropriations committee has not been as clearly or sharply expressed as the interests of this committee.[22]

Staats' testimony also revealed the late start of the Civil Service Commission in developing training programs to aid in improved financial management. In speaking on Commission efforts to work out an intra-agency study program, Staats indicated that the program had begun only in the preceeding six months.[23]

James F. Kelly, Comptroller of HEW, was preceded by a General Accounting Office representative who laid the groundwork for evaluating the HEW testimony. It was pointed out to the committee that HEW had none of its eight systems approved. At the 1964 Hearing, none of them were even scheduled for submission. However, in early 1965, a date of July 1965 was given for submitting the system for the Office of the Secretary. This system was to become the model for submitting the other systems. The Office of Secretary System was never submitted. Based on the General Accounting Office's displeasure at the piecemeal approach, a revised schedule was developed which included plans for all Department systems. The Office of Secretary System was scheduled for December 1966, three systems for December 1967, and three systems for December 1968. Inspection had led the General Accounting Office to believe that inadequate planning and staffing was being performed to meet these dates.[24]

---

[22] Ibid., p. 50.

[23] Ibid., p. 52.

[24] Ibid., pp. 55-57.

When Kelly took the stand, he spoke primarily to four problems.

1. The shortage of a qualified systems accountant staff throughout the Department.
2. The turnover of available personnel.
3. Attention being directed away from systems development and to day to day problems as the result of HEW's rapid expansion.
4. Determining the best way to record costs on grants given to the states.

In the later case, the question that arose was whether the accrual concept allowed simultaneous obligation and expensing when the money was given to the state or whether some type of report was required from the agency as to the time frame in which funds were actually spent.[25]

## 1967 Congressional Hearings

Kelly's testimony concluded the abbreviated hearing; however, the Committee announced that it would continue the investigation at a later date. Consequently, hearings opened a third time in July 1967. By then, the overall status of approved systems had shown slight improvement. As detailed in Appendix I, sixty of the one hundred fifty-four or 38.9% of the civilian department systems were approved.

The 1967 Hearings concentrated on reviewing the agency side of the picture. Questionnaires were sent out to selected agencies, and additionally, several Departments were invited to appear in person.

Comptroller-General Staats led off the hearing and related that the Office of Policy and Special Studies had been designated as the focal point within the General Accounting Office to assist agencies and view progress.

---

[25] Ibid., pp. 68-9, 76-7.

This new emphasis was accompanied by a change in review and approval procedures. A third step requiring submission of principles and standards underlying systems was added to the existing requirement of approving systems design and systems in operation. It was hoped that the new step would assure agreement between the agencies and the General Accounting Office before great time and effort was spent in more detailed systems development. The new step would also reduce the time the General Accounting Office spent in reviewing and approving systems. The change was incorporated into the General Accounting Office Policy and Procedures Manual in May 1967.[26]

Another improvement attained was the identification by the Joint Financial Management Improvement Program Steering Committee of several cases where accounting data was providing managers cost and financial information that was being advantageously used in daily operations. These cases had been written up and distributed to all the agencies.[27]

A final initiative announced was the inclusion of the Civil Service Commission Chairman as a principal member of the Joint Financial Management Improvement Program. This move came as the result of repeated complaints from the agencies of not being able to find sufficient competent people to get the job done.[28]

Staats concluded by stating that a significant increase in executive agency activity had been directed towards establishing useful and approvable accounting systems.

---

[26]U.S. Congress, House, Committee on Government Operations, Rate of Progress Being Made by Government Agencies in Meeting the Requirements of the Budget and Accounting Procedures Act of 1950, Hearings before a subcommittee of the Committee on Government Operations, House of Representatives, 90th Cong., 1st sess., 1967, pp. 4-6.

[27]Ibid., p. 7.

[28]Ibid., p. 5.

During the question period that followed, Staats stated that in the case of some of the smaller agencies, where costs were primarily in the nature of personnel services and support costs, accrual accounting was not considered very important. He also identified a problem in Congress not funding costs for additional people to install improved Accounting systems. A committee question concerning the cost saving resulting from installation of accrual systems elicited the response that saving could not be readily measured.[29]

The discussion led to the organization and operation of the Joint Financial Management Improvement Program. It was disclosed that the chairmanship of the sterring committee was rotated each year among the agencies, and that the committee met bi-weekly. Staats indicated that recently there had been only two meetings of the principles and that this was perhaps not as many as there might have been. He continued,

> I think it [JFMIP] is a very useful arrangement even if it did nothing more than exchange information about what each agency is doing in their respective fields . . . They put out an annual report too, which is a project sponsored by the four agencies now.

At this point, Mr. Weltzel of the General Accounting Office interjected,

> I know Mr. Staats would not claim the credit, but . . . he is the one person who has done the most to revitalize (italics mine) the JFMIP. . . . There have been meetings which we have not had before.

Mr. Hardy of the committee observed:

> It occurs to me where you have three heads you might not have any.

Weitzel replied,

> We did not have any chairman, as I recall, of the steering committee for years. It was just last year that we adopted the new procedure of having a rotating chairman.[30]

---

[29] Ibid., pp. 27, 31, and 33.

[30] Ibid., pp. 34-5.

Later, Darlington Denit, Director of the Office of Survey and Review in the Department of the Interior, also addressed the Joint Financial Management Improvement Program.

> I do not think the financial management improvement program has operated on a direct assistance basis to any departments. By the assembly of financial management improvement projects reported to the Budget Bureau annually and the redistribution or publication of those, one can by sharing the experience of other departments, get some insight into areas where there might be improvements, but I am not aware that any agency of Government, control agency or otherwise, has to this point prescribed any principles or procedures for adapting to the PPB for example.[31]

These comments provide direct indication that the Joint Financial Management Improvement Program, although a positive force, was considerably less than the powerful source of coordination, direction, and leadership described by Lindsay Warren, the Bureau of the Budget, and the Treasury at the time of the hearings on the First Hoover Commission recommendations.

Philip S. Hughes, Deputy Director of the Bureau of the Budget, addressed the criticism leveled against the Bureau in House Report 179. According to Hughes, much progress had been made since that time. The examiners in the Bureau had been actively working with the agencies on improving accounting systems and in developing cost information in budget presentations. The installation of Planning, Programming, and Budgeting had provided a thrust to the generation of more meaningful accounting data. This emphasis was being carried out by the examiners with guidance provided from the Office of Financial Management. The annual report of the Joint Financial Management Improvement Program had highlighted the 1964 hearings, and as a result of Bulletin No. 65-9, agency improvement efforts were reported to the Bureau for evaluation and follow-ups. Action taken stressed the need for earlier and firmer target dates in submitting systems to the General Accounting Office.

---

[31] *Ibid.*, p. 72.

Bulletins 66-6 and 66-8 also emphasized the need for prompter agency action in the accrual accounting and cost budget areas, and in the recruitment and training of qualified financial personnel. The Bureau stressed that dates were finally firming up.[32]

Hughes candidly admitted that the lead role in accounting systems development, and in the progress made belonged to the General Accounting Office. According to Hughes, the Bureau's "limited size and diverse responsibilities require that our role be primarily one of leadership stimulation and periodic review of status." The leadership role was fulfilled thru the budget examiners assigned to the agencies.[33]

The Departments of Labor, Interior, Agriculture, and HEW discussed accounting problems and progress from the agency side.

The Department of Labor, with none of its three systems approved, stated that their efforts at improved accounting had begun in earnest only three years earlier. Prior to this date, no centralized direction had been provided. Progress had still been slow since the magnitude of the job had been underestimated. In 1965, the accounting staff of the Department was increased from two to six system accountants. The installment of new programs under the Manpower Development and Training Act had repeatedly pointed to the need for better financial information. As a result, new procedures for administrative control of funds, and a departmental general ledger accounting system were implemented, a computer based property accounting system was installed, and the firm of Touche, Ross, Baily, and Smart was contracted to develop a Departmental cost accounting system and a complete accounting system for the Bureau of Employment Security Federal-State

---

[32] Ibid., pp. 38-41.

[33] Ibid., pp. 36-7.

employment security agencies. This contract was to cost $1,016,000 and provided that the system would be operative starting July 1, 1968, and implemented by September 30, 1968.[34]

Darlington Denit of the Department of the Interior told the Committee:

> Despite the implications of the 1950 amendments to the Budget and Accounting Act and Public Law 84-863, . . . top management in most Federal agencies has been preoccupied with the stewardship or custodianship phase of finance. . . . This stress misplaced if you will has been encouraged by persistent demands that appropriation requests be stated and justified on an obligation and expenditure basis. . . . If top management made demands on financial officers for data, the data requested were controlled by the theme of "how much of the appropriation authority granted to us has been committed."[35]

Denit then claimed that the Interior record had been relatively good with seven systems approved between 1950 and 1958. The period 1958 to 1963 saw a slacking off of effort. This had the effect of discouraging good financial systems people from staying on or being attracted to the Department. In 1963, however, the Office of Survey and Review which Denit headed was created. Resultingly, documented accounting systems were submitted to the General Accounting Office for all delinquent agencies. When the 1966 Presidential memorandum on Planning, Programming, and Budgeting and the General Accounting Office three step submission procedures were issued, Interior felt it necessary to withdraw all systems to take cognizance of the changes. Eight systems were in the process of being revised. One of the systems was being developed by the Management Assistance Corporation for $100,000.[36]

Denit's testimony brought out the fact that most of the systems previously approved in the 1950-1958 time phase were just as badly in need of revision as the systems recently withdrawn and being worked on. This

---

[34] Ibid., pp. 46-49 and 53.

[35] Ibid., p. 57.

[36] Ibid., pp. 57, 58, 68.

revelation led to an exchange in which the Committee expressed displeasure at the "rough shape" Interior appeared in and the seeming lack of effort being taken on any but the one system being developed by contract. The committee staff was directed to get together with the General Accounting Office and Interior and made a special review of the situation.[37]

The Department of Agriculture, with five of its fifteen systems approved, likewise found themselves under attack by the Committee. Charles L. Grant, Director of Finance, delivered a statement in which the following points were made. Between 1950 and 1961 numerous systems were submitted to the General Accounting Office. Many of these had been withdrawn by the Department or rejected by the General Accounting Office. Eight systems were returned in 1963 because they didn't take into account the monthly requirement for converting obligation to accrual data or depreciation expense. A renewed effort was spurred in 1965 and four systems were forwarded to the Comptroller-General. Three other systems had been ready for submission except the General Accounting Office requirement that systems be operative had been misunderstood. To accomplish the current development effort, the systems staff had been increased by forty per cent and contracts for $5,500 and $47,000 had been let. It was also anticipated that several additional contracts might have to be awarded before all fifteen systems were approved.[38]

Grant's testimony again raised the question of the time required for submitting systems to the General Accounting Office, and the delay in approving the system once submitted. In the later case, Grant explained that the principles prescribed by the General Accounting Office were imprecise as to

---

[37] Ibid., pp. 69-73.

[38] Ibid., pp. 74-5, 77, 79.

conditions under which principles had to be applied. The use of the qualifying word "generally" was given as an example. This situation resulted in the need to bargain with the General Accounting Office on the extent to which a principle had to be applied. Reconciling the differences took time.[39]

HEW was the last agency to be heard. James F. Kelly, Assistant Secretary of the Comptroller Department, described the "umbrella system" under development that aimed at providing a framework for integrated Departmental Accounting. The system had been submitted to the General Accounting Office for approval and/or advice.

Kelly reiterated the grant problem facing HEW. This he saw as a balancing of the opposing interests for eliminating needless reports that impaired state and university management, and the need for improved, and more effective management of the grant programs.[40]

He also revealed that the HEW effort was requiring seventy-eight billets, plus five new billets were being requested in the current budget. Additionally, the Department had outstanding system development contracts for $29,614; $38,000; $93,000; and $91,500. More contracts were anticipated.[41]

As previously mentioned, the Committee considered responses to questionnaires sent to various agencies. Several of the problems disclosed warrant examination.

The State Department emphasized difficulties caused by the physical separation of its facilities. Foreign Affairs for instance was operated through central Washington offices, one hundred eighteen embassies, and one hundred sixty overseas posts, and provided reimburseables support to

---

[39] Ibid., p. 75.

[40] Ibid., pp. 85-86, 93.

[41] Ibid., p. 95.

fifty other Governmental agencies. The Department also stated that questions as to the degree of detail required for property, applied cost, and accrual accounting remained unresolved. Evaluations within the Department had resulted in a concensus opinion that the cost of accrual data far outweighed the benefits.[42]

The Defense Department spoke to its efforts (designated Project Prime) to establish an accrual accounting system for operations and maintenance funds, whereby one hundred percent of the resources used by a commander would be charged to him. Free use of military and certain statistical charges would be eliminated. The system had run into a stumbling block when the House Appropriations Committee has refused to fund development costs and urged further study of the principles involved.[43]

The HEW and Department of the Interior responses both identified the procurement of additional professional accountants and the education of financial and program people as the biggest problems they faced in delaying the development of accounting systems. The Small Business Administration similarly identified a recruitment and retention policy.[44]

The 1967 Hearings were followed by a published report (House Report 1159) in which the following findings were enumerated.

1. There has been a notable increase in the activity to produce adequate accounting systems.
2. There was a noticeable increase among agencies in the realization of the potential benefits of good accounting data.
3. The General Accounting Office has increased the amount of

---

[42] Ibid., pp. 103, 107.

[43] Ibid., pp. 110-18.

[44] Ibid., pp. 146, 150, 153.

cooperative effort being provided the agencies.

4. Sanctions against delinquent agencies may be necessary.
5. The Bureau of the Budget has been more vigorous in their recent efforts; however, sterner action may be needed.
6. Systems approved prior to 1965 need to be re-examined. This procedure should be formalized.
7. The Civil Service Commission has picked up its recruitment and training programs. Lack of Funding was hampering the training effort.[45]

These findings led the Committee to recommend that:

1. The General Accounting Office should publish an annual report on accounting progress.
2. Good examples of the use of accounting systems should continue to be circulated.
3. Previously approved systems should be reviewed under a formalized procedure.
4. The Bureau of the Budget should work more effectively in persuading agencies to make improvements and in promoting the use of cost data.
5. The Civil Service Commission should maintain close liaison with the agencies to ascertain that courses are in line with their needs and to solve funding problems in sending personnel to the courses.
6. Agencies should send both financial and management people to the appropriate Civil Service Course.

---

[45]U.S. Congress, House, Committee on Government Operations, Submissions of Agency Accounting Systems for GAO Approval (Second Review), H. Rept. 1159, 90th Cong., 2d sess., 1968, p. 3.

7. Realistic target dates for submitting agency systems to the General Accounting Office should be established and adhered to.

8. The Appropriations Committee should give special consideration to funding accounting systems improvement work.[46]

In discussing the Bureau of the Budget, the report stated,

> Nominal leadership and suggested stimulation are of little value unless there is a followup with concrete action. The Budget Bureau. . . should have sufficient staff to enable it to keep informed for developments in agencies and take whatever action may be necessary to eliminate the perennial foot-dragging. We are concerned that the Bureau presently does not appear to have staff capability to do this.[47]

The views of the Committee were summarized:

> There is no excuse for delay in enforcing the Budget and Accounting Procedures Act of 1950, as amended. Rising costs of Government accentuates the essentiality for prompt modernization of its accounting systems. Until this is done, the control of day to day operations is inadequate, because these should be determined on the basis of cost rather than on the basis of obligation.[48]

This did not complete the Hearings on Agency progress. In 1968, an additional hearing was held. However, its purpose was to provide a showcase to display the Labor Department Accounting system that had been developed through the million dollar contract.[49]

Looking in retrospect at the 1964 - 1968 hearings held by the House Committee on Government Operations, the statistics in Appendix I reveal that when the first hearing began in 1964, thirty-two percent of the agencies had

---

[46] Ibid., pp. 3-4.

[47] Ibid., p. 8.

[48] Ibid., p. 12.

[49] The verbatim record of the hearing is contained in U.S. Congress, House, Committee on Government Operations. A Review of Labor Department Accounting Systems, Hearings before a subcommittee of the Committee on Government Operations, House of Representatives, 90th Cong., 2d sess., 1968.

approved accounting systems in operation. This percentage was increased slightly for each of the hearings up to 1968 when forty-two percent of the systems were reported as being approved.[50] In viewing this figure by itself, only a modest improvement is indicated.

This index must be qualified by two counter and immeasureable factors. The index does not indicate the totality of management effort since the approval was the last step in recognizing effort, and might then be denied as the result of a single part of system not meeting the prescribed principles. On the other hand, the statistics do not weigh the size and complexity of the systems subject to approval. The Department of Defense which accounts for a large percentage of total Federal outlays (approximately forty percent in FY 71), had only one approved system by December 31, 1968. Appendix I covers just the Civil Departments. Then, if the "Independent Agencies" are excluded from Appendix I and the record of the remaining major Departments is considered by itself, the approval percentage is decreased to a meager twenty-four percent in 1964 and 28.4% in 1968.

## Summary

The series of Hearings between 1964 and 1968 showed that the accomplishments and progress anticipated by Congress, the General Accounting Office, the Bureau of the Budget, the Treasury and others in 1950 and 1956 had not been realized. The Joint Financial Management Improvement Program had not proved effective as a leadership device for accounting improvement. The Bureau of the Budget and Treasury had taken a back seat to the Comptroller-General. Yet the

---

[50]The 1968 statistics are derived from the Comptroller-General's first report to Congress on improvements being made in agency accounting systems. See U.S. Congress, House, Progress, and Problems Relating to Improvement of Federal Agency Accounting Systems as of December 31, 1968, B - 115398, Report of the Comptroller General of the United States, 91st Cong., 1st sess., 1969, pp. 85-95.

Comptroller-General had no authority to force agencies to comply or adopt the principles and standards he prescribed.

The Bureau of the Budget, although having designated a Financial Management Office with accounting system responsibilities, had not staffed adequately to do much more than "encourage" agencies and "collect reports" on progress. The Comptroller-General recognized the problem and attempted to fill the vacancy by increasing his Accounting Policy Office four fold and assigning the office responsibility to assist agencies in developing their systems.

Although the Hoover Commission had recommended a program to hire and retain adequate professional accountants, the hearings showed that efforts in this area and in financial training were minimal and late.

Generalities in the General Accounting Office principles resulted in raising question of interpretation and led to bargaining and drawn out attempts to reconcile differences between the agencies and the General Accounting Office.

The Appropriations Committee's insistence on using obligation authority as the focus point in the appropriations process was also viewed as having a deterring effect on accounting and budgeting development.

Lack of agency interest and initiative was visible as a major cause of the poor performance. In many cases, this problem was considerably complicated by the largeness, physical separation, and complex operations of some Departments.

Above all, the hearings established that the cost of improved accounting systems was going to be high in terms of increased staffs, training of existing personnel, contractual costs in developing systems, and establishment of supporting information systems. As compared, the benefits, although real, were intangible and difficult to measure in cost savings.

## CHAPTER IV

## CURRENT EMPHASIS AND PROBLEMS IN DEVELOPING ACCRUAL SYSTEMS

### The President's Commission on Budget Concepts

The series of Hearings held by the House Committee on Government Operations on progress being made in developing accounting systems had the effect of spurring agency improvement efforts; however, another event occurring during the same period has been of equal significance in its impact on the move to accrual accounting in the Government.

In March 1967, a high level Commission headed by David M. Kennedy was appointed by the President to review the Federal budget process. Lyndon B. Johnson in his chartering letter called particular attention to the confusion caused by the three existing budgets at that time, and asked that the commission examine the "set of concepts which underlie the major budgetary totals and their summary presentation." He also suggested a review of "the timing of disbursements and receipts (for example, cash or accrual)."[1]

The three budgets in use were each stated on a different accounting basis and differed in the expense and revenue items covered. The Administrative Budget or "President's Budget" highlighted new appropriations being requested and was stated basically on a checks-issued basis. This budget

---

[1]Report of the President's Commission on Budget Concepts, David M. Kennedy, chairman (Washington, D.C.: Government Printing Office, 1967), pp. 107-108.

excluded the transactions of the Trust Funds. The Consolidated Cash Budget was used by the Treasury in managing the cash transactions of the Government. It was based on checks paid, and while it included the Trust Funds, other miscellaneous items were missing. The National Income Accounts Budget had been devised by the economists to interphase with the public sector of the economy. This budget excluded loans and repayments of loans and was stated on a combination of accrued expenditures and checks issued. The net effect of the differences was that the size and impact of government operations and the estimated deficit or surplus varied considerably, depending on which budget figures were being referred to.[2]

After extensive review, the President's Commission recommended that the three budgets be replaced by a single "unified" budget. The new budget would have the advantage of being a single comprehensive document while still serving, thru the use of bridges and separate tables, the purposes of the old budgets.[3]

The Commission had to determine the best basis for stating expenditures in the recommended budget. Three primary considerations became the focus of attention.

First, in viewing the alternative methods of stating the budget, the Commission became concerned with the fiscal fluctuations and misrepresentations that occurred in the cash system. In a paper presented by Harvey Galper at a conference jointly sponsored by the Commission and the Brookings Institute, it was pointed out that in the last half of 1966 that the true impact of Defense build up for Viet Nam was understated by four billion dollars on

---

[2]Ibid., pp. 82-84.

[3]Ibid., p. 42.

an annual rate.[4] Such fluctuations resulted from the fact that performance often precedes disbursements by a considerable period of time.

An inter-agency study group from the General Accounting Office, Treasury Department, Bureau of the Budget, and the Federal Reserve Board conducted a brief survey among several agencies to determine the significance between disbursements and accrued expenditures. The survey measured the average number of days lag between receipt of goods and services and payment. No consideration was given to unbilled contractor performance which would greatly extend the delay discovered or "holdbacks" (i.e., payments earned but withheld until a contract was satisfactorily completed) which would decrease the disbursement figure as compared to expenditures for the same period. A summary of the findings in some of the more prominent agencies follows:

TABLE 2

DELAYS BETWEEN RECEIPT OF GOODS AND DISBURSEMENTS

| Agency | Delay Between Receipts and Disbursement (Months) |
|---|---|
| Defense | 1.5 |
| NASA | 1.8 |
| Federal Highway Administration | 2.4 |
| Treasury Department | 1.3 |

The study group reported to the Commission that the limited survey showed in most cases that expenditures provided a more prompt and precise measure of Federal spending than disbursement data.[5]

---

[4] *Ibid.*, p. 506.

[5] *Ibid.*, pp. 236-41.

The Commission, after considering this and other information, concluded:

> The shift toward accrual accounting . . . should make the budget totals a better index of the impact of Federal financial activities on the economy and should provide a better reflection of the financial condition of the government than any of the present concepts.[6]

A second factor considered was the effect of timing on the budget deficit or surplus and the means of financing a deficit. Since accrued expenditures were considered the most accurate representation of actual government operations, it was also felt that this basis would provide the most meaningful and consistent determination of the deficit or surplus. It was warned, though, that since accruals preceded disbursements, use of the expenditure figure would generally result in an increased deficit or smaller surplus figure in periods when government operations were expanding. Although the reverse effect (smaller deficits) would be true when operations were deflated, expanded operations were the normal circumstance in government. The effect on the deficit would initially be heightened because of the inability to immediately convert all revenues to an accrual basis, a problem that will later be discussed.[7] The increase to the deficit was illustrated over a three year period. The deficit would have been increased by 4.4 billion in 1966, 5.5 billion in 1967 estimated, and 1.2 billion in 1968 estimated.[8]

The Commission went on to discuss the importance of the deficit in terms of financing. It recommended that the budget document should contain a separate financing section displayed in a prominent place. The statement

---

[6] Report of the President's Budget Commission, p. 37.

[7] Ibid., pp. 45-6.

[8] Ibid.

should be developed from accrual data.[9] In this presentation, accounts payable became a way of financing debt. This was because payables represented bills outstanding for which no cash payment had been made or was required in the current period. The deficit figure could be reduced by the value of payables in determining the debt requiring public financing.

The Commission, thirdly, considered the relationship of Government and business accounting. Businesses had operated under accrual systems for years. The incompatability resulted in difficulties in analyzing statistics complied by the Office of Business Economics for both the public and private sectors of the economy. Businesses reflected inventory allocations and revenues earned without the government assuming a corresponding liability or inventory increase. Placing both sides of the National Income accounts on a similar basis would permit a truer picture of the overall economy. The interlock would never be perfect because of variances in civilian accounting practices and the existance of "mail floats" (i.e., documents in transit recorded by only one party).[10]

In discussing the reasons for their recommendations, the commission called attention to the financial improvement efforts being made in government, particularly in the installation of accrual accounting systems. The assertion was made that the "accrual concept for budget purposes will foster the concept of cost control in all agencies.[11]

---

[9] Ibid., p. 56.

[10] Staff Papers Reviewed by the President's Budget Commission, p. 202.

[11] Report of the President's Budget Commission, p. 41.

Problems In Converting the Budget to an Accrued Expenditure Basis

The Report of the President's Commission presupposed several problems in adapting the recommendation for an accrued expenditure budget. Consequently, it was suggested that stating the budget on an accrual basis should be deferred until submission of the Fiscal Year 1971 Budget in January 1970.[12]

A major problem recognized was conversion of all agency accounting systems to the accrual basis. A report submitted by the inter-agency study group led the Commission to believe that the changeover, with the possible exception of the Defense Department, could be completed in time for the Fiscal Year 1971 Budget.[13]

A second problem was seen in delays in reporting accrual data to the Treasury. Retention of the disbursement reports used for cash management would be necessary. Initially, it was forseen that accrual reports would take a longer time in compiling, but by 1970 it was believed that accrual reports would be available on the same time frame as the cash reports.[14]

The greatest problem; however, was considered to be the development of an adequate means of accruing revenue. No previous experience had been gained in measuring and recording the accumulated tax liabilities of the private sector. Devising a suitable means for accruing Income and Corporation taxes appeared particularly difficult. Estimating individual tax liability at other than the end of the year, seemed the more complex problem; however, economists generally agreed that the individual tax was not as variable or

---

[12] Ibid.

[13] Ibid.

[14] Ibid., p. 41-2.

as important to predicting economic behavior as the corporation tax.[15]

## Measuring Constructive Delivery

The Commission's identification of the key issues has proven quite accurate; however, neither the scope or true priority of the problems were forseen.

The President approved the Commission's recommendations in December 1967. Between April and June 1968, the Office of Management and Budget, the General Accounting Office, and the Treasury published instructions to collect data on a trial basis and to prepare for the changeover in 1970.[16]

An Inter-Agency Study Group (OMB, GAO, Treasury) was established to determine materiality of the amount involved in unbilled contractor performance. The group, after visiting ninety-two Defense plants, concluded that the amount was significant, but recognized problems in documenting work performed through multiple tiers of contractors and sub-contractors. An example of the layering problem is shown by the statistics on subcontractors derived by the study group from twenty-one plants.[17]

---

[15] Ibid., p. 43-5.

[16] Bureau of the Budget, Bulletin "No. 68-10," Washington, D.C., April 26, 1968, provided implementing instructions to the agencies, Treasury Department, "Transmittal Letter No. 18," Washington, D.C., June 20, 1968, contained instructions on reporting requirements to the Treasury, and Comptroller-General of the United States, Letter to Heads of Departments and Agencies "Accounting for Accrued Expenditures and Revenues," Washington, D.C., May 4, 1968, modified accounting principles to recognize monthly reporting requirements, the constructive delivery concept, etc..

[17] Inter-agency Study Group, Report of the Interagency Study Group on Contractor Reporting for Purposes of Federal Accounting and Reporting of Accrued Expenditures (Washington, D.C., 1968), pp. 47-53.

TABLE 3

LAYERING OF SUBCONTRACTORS

| Number of Plants | Number of Subcontractors |
|---|---|
| 4 | 1-4 |
| 5 | 5-100 |
| 0 | 101-500 |
| 4 | 501-1000 |
| 1 | 1001-2000 |
| 1 | 2001-3000 |
| 2 | 3001-4000 |
| 2 | 4001-5000 |
| 1 | 5001-10,000 |
| 1 | Over 10,000 |
| Total 21 | |

It was recommended that to begin with, only work documented by invoices or requests for progress payments be included in accruals, and that an attempt be made to develop statistical techniques in estimating unbilled performance. As a result, the Office of Management and Budget published a supplement to Bulletin 68-10 in which statistical methods previously allowed for smaller contracts were extended to all contracts. Use of the statistical methods required adequate verfication of accuracy, at least annually.[18]

The Defense Department undertook their own study of constructive delivery since they were the most involved in the problem. An attempt to directly

[18]Bureau of the Budget, "Bulletin No. 68-10, Supplement No. 1," Washington, D.C., July 1, 1969, pp. 3-5.

document unbilled contractor performance on a test basis was terminated as the result of a letter from the National Security Industrial Association (NSIA) to the Director of the Bureau of the Budget. This letter complained that the constructive delivery concept went beyond business concepts of accrual accounting, and that such data was not a normal consideration for businesses or necessary for internal control. The letter then cited the derogatory effects on one Division of a major contractor in the areospace industry. Ten thousand purchase orders were received by this Division each year and approximately six to seven thousand were outstanding at any one time. This meant that six to seven thousand reports would be required monthly. In turn, 70,000 orders per year were placed on subcontractors. The majority of the subcontractors would not or could not make the necessary monthly reports. A major problem also existed in allocating work in process among government agencies. Additionally, the Division operated on a four week accounting period in lieu of the monthly cycles on which government reports were desired. The costs of supplying the desired data, even if available, would be exorbitant.[19]

The criticism leveled in the National Security Industrial Association's letter led the Defense study group to search for a method of statistically estimating constructive delivery. After completing a "birth to death" analysis of fifty-one procurement contracts, a determination was reached that the statistical model did not "estimate 'unbilled performance' with a sufficiently high degree of reliability for inclusion in the Defense Department accounting and budgeting system."[20]

---

[19]Letter from National Security Industrial Association to the Director of the Bureau of the Budget, Washington, D.C., December 26, 1968.

[20]DOD Special Study Group, Report of the Group, Defense Contractor Constructive Delivery (Accrual Accounting Implementation) (Washington, D.C., 1970), p. 10.

The Department concurred with these findings and turned the project over to the Office of Business Economics (OBE) for their use and development in forecasting the economic impact of Defense activities.

## Accounting for Federal Grants

A problem similar to constructive delivery was experienced in recording accruals on grants awarded to states and colleges. The majority of grantees did not keep their accounts on an accrual basis and therefore could not report the desired data. Carl Tiller, Special Advisor on Budgetary Development in the Bureau of the Budget, has claimed that resistance from grantees has been supported by program personnel in Federal Government who did not want to impose sanctions, and by financial personnel who believed that processing paperwork under the new system could add as much as 40,000 documents per month to internal workload.[21]

## Tax Revenues

Accruing tax revenues has never seriously gotten off the ground. Another inter-agency study group was formed to develop statistical methods of determining corporation tax accruals, but then disbanded before testing began. The Treasury was left to work with the Office of Business Economics. As of the end of 1970, no satisfactory method had been decided on. The Treasury also undertook soliciting the views of nineteen experts on the advantages to accruing individual income tax. Nine reported favoring accrual, but few offered ideas on how it might be done. A study has been comptemplated,

---

[21]Carl W. Tiller, "Accrual Accounting and Budgeting for the Government," The Federal Accountant, XIX (March, 1970), p. 81.

but has not been performed or undertaken.[22]

The Treasury Reports

Timeliness and reliability of accrual data reported to the Treasury has also represented a larger problem than anticipated by the Budget Commission. Based on Treasury estimates in 1967, the Commission was led to believe that accrual reports would be published during the test period six weeks after the end of a reporting month. This compares to the three weeks required for publishing cash reports. The Treasury's six week estimate was based on receiving agency reports on the first working day after the 24th of the month. Experience gained in the first test year (July 1968 - June 1969) showed considerable improvement throughout the year; however, by June 1969, only twenty-eight percent of the reports were being received in the required twenty-five day time frame.[23]

TABLE 4

DELAY IN REPORTING ACCRUAL DATA: JUNE 1969

| Days After End of Month | Number of Agencies And Bureaus Reporting |
|---|---|
| 0-25 | 48 |
| 26-35 | 49 |
| 36-45 | 38 |
| 46-55 | 11 |
| 56-80 | 12 |
| Not Received | 14 |
| | 172 |

[22] Ibid., p. 87.

[23] Ibid., pp. 88-9.

It must be remembered in viewing the statistics in Table 4 that in order to convert to the accrual basis in publishing monthly reports, even the twenty-five day limit must be drastically reduced. Serious questions have also been raised as to the accuracy of the data being received.[24]

## Current Status of Accounting Systems

### 1969 Comptroller-General's Report

A more basic problem in developing the capability for the 1971 Budget was reflected in the 1969 report published by the Comptroller-General on progress being made to improve accounting systems. As mentioned in Chapter III, the General Accounting Office score card as of December 31, 1968, showed only 62 of 148 Civil Department accounting systems approved. (See Appendix I) The report pointed to progress though in that ten systems, an all time high, received formal acceptance in 1968. Also, thirty-two agencies had attained approval of principles upon which systems were to be developed and operated.[25] This was the step added to the General Accounting Office approval procedures in 1967.

The General Accounting Office indicated deficiencies still existed in the areas of the application of the accrual concept in practice, implementing and operating property accounting systems, coordinating the efforts of Accounting and Planning, Programming and Budgeting staffs, developing good cost accounting systems, and hiring of qualified accountants.[26]

---

[24] L.D. Mosso, Deputy Commissioner, Bureau of Accounts, Treasury Department, private interview held at the Treasury Department Annex, Washington, D.C., December, 1970.

[25] U.S. Congress, House, Progress and Problems Relating to Improvement of Federal Agency Accounting Systems as of December 31, 1968, B 115398, Report of the Comptroller-General of the United States, 91st Cong., 1st sess., 1969, p. 6.

[26] *Ibid.*, pp. 2, 7-11.

## New Approval Procedures

In a letter appended to the report dated October, 1969, Comptroller-General Staats announced that General Accounting Office had eliminated formal approval of systems in operation. According to him the change was

> . . . intended to provide a more effective method of operation and to result in our making more evaluations of the operation of agency accounting systems and proposing constructive recommendations for strengthening or otherwise improving those systems.
> Another reason for this change is that accounting systems for Federal agency operations are seldom static since they must keep abreast of changes in information system concepts, technology, and changes in Federal program operations. To attempt to keep the "approved" status of all systems on a current basis can be an _impossible_ objective. [Underline mine]

Staats continued on to say that the General Accounting Office felt they could accomplish as much or more by cooperating with the agencies and by making reviews of systems in operations and preparing written reports.[27]

In order to fully evaluate the effect of this change in approval procedures, it is necessary to reflect on the change in the General Accounting Office emphasis between 1965 and 1968 and to examine the evolution of accounting principles from their first publication in 1952. In 1965, the original principles were republished in an attempt

1. To consolidate into one comprehensive statement pronouncements that over the years have been made in different documents.
2. To clarify the statement of our principles where needed, based on experience.
3. To make our stated principles and standards more specific where believed needed, based on experience.
4. To incorporate statements of principle on matters not previously covered.
5. To revamp the organization of the statement to produce a more cohesive document.[28]

---

[27] _Ibid._, pp. VI and VII.

[28] "Transmittal Sheet No. 2-18," The Comptroller-General of the United States, _Accounting Principles and Standards for Federal Agencies_, Washington, D.C., (With 1968 Revisions), 1965.

Review of the new procedures reflect that the wording was indeed made more concise and firm, "Each executive agency's accounting system must conform in all material respects, to the principles, standards, and related requirements for accounting prescribed by the Comptroller-General." Although deviations were permitted, the agency was squarely charged with the responsibility to justify any deviation.[29]

The more concise and forceful wording of principles was followed by the addition of the third step requirement to submit agency principles for approvals.

The series of changes in principles and approval procedures indicate the General Accounting Office's recognition that the principles had to be made more specific, and provide the basis for initial agreement from which agencies could develop and implement their systems. By the same token, the General Accounting Office had finally realized the futility of attempting to inspect and attach a seal of approval to systems in operations.

## 1970 Comptroller-General Report

The 1970 report of the Comptroller-General was the first issued under the new two step approval procedure. The approval statistics counted previously approved systems as approvals of principles and systems design. On this basis, in the Civil Departments, 65 of 155 system designs and 95 of 122 principles were approved. The Department of Defense reflected twenty-three segments of principles and six systems designs approved.[30] This data is difficult to interpret since its basis is not compatible with past statistics;

---

[29] *Ibid.*, pp. 2-14.

[30] The Comptroller-General of the United States, *Status, Progress and Problems in Federal Agency Accounting, 1969 Annual Report*, Washington, D.C., 1970, p. 2.

however, some inroads were apparently made, since during 1969 alone, twenty-one statements of principles and eight systems designs were approved in civil departments, and eight statements and three designs in the Defense.[31]

The analysis of agency developments was compiled entirely from agency reports and the answers to questionnaires formulated by the General Accounting Office. Indicative of the improvement still required, less than half of the agencies were found to be using cost data in day to day operations, even though the majority were preparing monthly statements of operating costs. Property control was still found inadequate.[32]

The problem of hiring and retaining qualified accountants reported in the 1969 Report had partially alleviated itself, but still existed. Training efforts were on the upswing. The Financial Management and Planning, Programming and Budgeting Training Center initiated by the Civil Service Commission in 1967 had trained some 2,167 personnel in eight-five sessions of nineteen training programs. Regional Commission offices had trained an additional 2,200 people.[33]

Responses to a GAO inquiry of whether accrual accounting had been implemented in accordance with established policy indicated, that ninety-five Departments had installed such systems and thirty-six had not fully implemented them or felt that accrual accounting was not applicable. Included among those who had not fully implemented systems were the Department of Agriculture (six systems), the Department of Commerce (two systems), HEW (eight systems), Department of Housing and Urban Development (seven systems), the Department of the Interior (five systems), the Department of Justice (two systems), the

---

[31]*Ibid.*, p. 3.

[32]*Ibid.*, pp. 5-7.

[33]*Ibid.*, pp. 12-13.

Department of State (two systems), the Department of Transportation (one system), and Independent Agencies (five systems).[34] The fact that some of the major civilian agencies and the Department of Defense had not fully implemented accrual accounting reflects how much remained to be done before the goals established by the 1950 Budget and Accounting Act, as amended, and the President's Commission on Budget Concepts were met.

An interesting sidelight in the report is the revelation that the Labor Department's target dates for submitting systems had slipped as the result of

> . . . the need to accustom fiscal personnel to new systems techniques, and the inability of consultants obtained to assist in the accounting systems development effort to retain personnel initially assigned on the job until completion of the contract.[35]

This is the Department that had been invited by Congress in 1968 to display the system being developed with the assistance of million dollar contracts.

## Other Problems

### Costs of Improvement

The hearings conducted by the House Committee on Government Operations had revealed explicit costs in developing systems as the result of increased personnel requirements, and the need to hire consultants to assist in the initial design, implementation and training phases. The later costs varied from as small as $5,000 in Interior up to the million plus Labor Department Contract. In addition to these two agencies contracts had been used by HEW and the Department of Agriculture. The use of consultants continued to be common throughout 1969.[36] As an example, the Navy let a 1969 contract with

---

[34] Ibid., pp. 26-27.

[35] Ibid., pp. 81-2.

[36] Progress and Problems in Federal Accounting, 1969 Report, p. 13.

Haskins and Sells to study their accounting organization and procedures. The initial cost was $400,000.[37]

Larry Jobe, Administrative Secretary in the Commerce Department, further illustrated the costliness of the efforts at improved financial management when he pointed out that between 1964 and 1969, the number of financial management people in Government increased from 121,000 to a 162,000. This was an increase of 34% as compared with an overall increase in Government employment of 18% for the same period. He also called attention to increased computer expenses, (capital and operating) from $463 million in 1960 to 2.2 billion in 1970. Jobe implied that computer use for financial management had increased at least proportionate to the increase in overall costs.[38]

### Obligation Emphasis of the House Appropriations Committee

The House Appropriations Committee has continued to be unwilling to accept the accrued expenditure concept. Mr. Andrews, in reporting the 1970 legislative Branch Appropriation Bill out of committee, leveled an assault on the accrual concept which included the following points:

1. The 1956 Budget and Accounting Act ordained accrual accounting, not accrual budgeting.
2. There has been less than enthusiastic support for accrual accounting among agencies.
3. The General Accounting Office has diverted two hundred man years

---

[37] Rear Admiral V.A. Lascara, Assistant Comptroller, Financial Management Service, Department of Navy, Lecture given at the George Washington University, November 9, 1970

[38] Larry A. Jobe, "Financial Management in the Federal Government 'Are We Doing Less With More?'" Manuscript of address delivered at the 19th Annual Symposium of The Federal Government's Accountants Association, June 19, 1970, Miami Beach, Florida.

from pressing audit needs to assist agencies in accounting systems development.

4. In many agencies expenditures and cash outlays are almost synonymous.

5. Accrual requirements are superimposed on cash obligation records.

6. Many managers will continue to operate on an obligation basis.

7. Obligations are the steps that set the wheels of production in motion.

8. Congress went out of its way to keep from requiring use of accrual budgets in 1956.

9. It is difficult to conclude that accrued expenditure data would be as reliable as cash data.

10. More time and effort will be required in obtaining expenditure data.

11. "Expenditures" is not an easily understood concept.

12. Auditing would become more difficult under the accrual system.[39]

The controversy heated up again on the House floor when Mr. Monagan and Mr. Holifield, both members of the Committee on Government Operation, challenged the validity of Mr. Andrews' remarks and the jurisdiction of the Appropriations Committee in surveying the form of agency accounting systems. Mr. Mahon, chairman of the Appropriations Committee, used the opportunity to get excerpts of the committee report in the Congressional Record.[40]

---

[39] U.S. Congress, House, Legislative Branch Appropriation Bill, 1970, H.R. 91-487, 91st Cong., 1st sess., 1969, pp. 25-35.

[40] U.S. Congress, House, Representative Monagon, Holifield, and Mahon speaking on the Legislative Branch Appropriations Bill, 1970, H.R. 91-487, 91st Cong., 1st sess., September 19, 1969, Congressional Record, H 8218-8220, 8222.

Blue Ribbon Defense Panel

Other blows have recently been struck. The Blue Ribbon Defense Panel included a recommendation in their Report that:

> Accrual Accounting systems in the Department of Defense should be confined to those service activities which operate under stock or industrial funds, and which are required to establish service charges which reflect total costs.[41]

The only reason given for the Blue Ribbon Recommendation was that accrual data was more costly and provided little benefit to non-profit organizations. The source of the recommendation has been attributed to Wilfred J. McNeil who was the Department of Defense Comptroller in the late 1950's.[42]

Also of interest, the recommendation drew partial support from Howard Wright, current Chairman of the Division of Accounting, Department of Business Administration at Maryland University, and past editor of the Federal Accountant. In a letter written to Secretary of Defense Melvin Laird, Wright pointed out that he endorsed neither the limitation recommended by the Panel or the total commitment to accrual accounting expressed by the American Institute of Certified Public Accountants in an earlier magazine article.[43] He felt that each case had to be considered on an individual basis. Predominantly consuming units could operate efficiently using obligations. Other areas (e.g., procurement, stock funds, etc.) required accrual systems. Wright ended by stating that

---

[41]Report of the Blue Ribbon Defense Panel to the President and the Secretary of Defense of the Department of Defense, Gilbert W. Fitzhugh, chairman (Washington, D.C.: Government Printing Office, 1970), p. 128.

[42]John Cooley, Director, Office of Accounting Policy, Department of Defense, private interview held at the Department of Defense, Washington, D.C., December, 1970.

[43]The views of the American Institute of Certified Public Accountants are contained in "AICPA Opposes Part of Defense Panel Suggestions," Journal of Accounting, October, 1970, pp. 11-12.

systems should be no more complex than the control and information needs of the Department.[44]

The recommendation has since been rejected in substance, but not before the Air Force and Marine Corps had expressed general agreement.[45]

Delay of Accrued Expenditure Budget

All of these problems have pointed to an inability to meet the Fiscal Year 1971 conversion deadline. In March 1969, President Nixon lent his personal support to the move toward accrual accounting.[46] One month later, the Treasury, Bureau of the Budget, and Council of Economic Advisors announced that conversion of the budget was being delayed until Fiscal Year 1972.[47] In September 1970 the Office of Management and Budget announced another delay until Fiscal Year 1973.[48]

Ellsworth H. Morse, Jr., Director, Office of Policy and Special Studies, General Accounting Office, has made one of the more curious statements concerning the delay. In an address to the 10th Annual Eastern Regional Conference of the Planning Executives Institute, Morse described the action of the President's Commission on Budget Concepts in recommending an accrued expenditure budget as taking

[44] Letter from Howard W. Wright to the Secretary of Defense, College Park, Maryland, October 12, 1970.

[45] Brigadier General H. L. Beckington, memorandum to Chief of Staff United States Marine Corps, Washington, D.C., October 8, 1970.

[46] Richard Nixon, Memorandum to The Director of the Bureau of the Budget, The Secretary of the Treasury, The Chairman of the Council of Economic Advisors, Washington, D.C., February 22, 1969.

[47] Letter from the Secretary of the Treasury, Director of the Bureau of the Budget, Chairman of the Council of Economic Advisors, and Comptroller-General of the United States to Heads of Departments and Agencies, Washington, D.C., March 10, 1970.

[48] Letter from the Director of the Office of Management and Budget to Departments and Agencies, Washington, D.C., September 15, 1970.

> . . . a somewhat rosy view of the capacity of Federal agency accounting systems to produce reliable data on the accrual basis . . .
> In retrospect, this suggestion was highly unrealistic and the issue even today -- three years later -- is still in doubt. The issue is simply one of whether, under the present state of the art of accounting data handling methods, and capabilities, it will ever be possible for all Federal Agencies, . . . to not only develop their budgets on the accrual basis, but to accumulate, prepare, and deliver timely reports . . . on that basis. . . . [49]

The statement shows a more skeptical outlook than was expressed when a report bearing Morse's name was submitted to the President's Commission in 1967. At that time the observation was made "Under present circumstances it may be two years or more before all major agencies will be in a position to report the necessary data promptly each month." No mention was made as to the possibility of not being able to provide the data. In fact, the proposed expenditure budget was seen as speeding up accounting procedural changes in the agencies.[50] It was this statement that was drawn on liberally by the Commission in concluding that the accounting changeover could be accomplished in two years.

## Summary

The President's Commission on Budget Concepts recommended that the unified budget be stated on accrued expenditures. The accrued concept was considered to provide the most reliable data on the true size and impact of Government expenditures, the interphase between the Public and Private sectors of the economy, and the size of the national debt and means of financing it.

The major prerequisites to carrying out the Commission's recommendations

---

[49] Ellsworth H. Morse, "The Report of the President's Commission on Budget Concepts in Retrospect," manuscript of address presented at the 10th Annual, Eastern Regional Conference of the Planning Executive Institute, Washington, D.C., October 16, 1970.

[50] _Report of the President's Commission on Budget Concepts_, pp. 22-3.

were the conversion of all government accounting systems to an accrual basis the establishment of a capability to collect timely accrual reports at the Treasury, and the accrual of corporate and individual income tax.

These prerequisites have not been satisfied and resultingly the deadline for the accrued expenditure budget has been twice pushed back, currently to 1973. There is considerable doubt that even this deadline will be met.

The problems remaining to be solved with accounting systems are of long standing and some such as the handling of grants and constructive delivery are just beginning to be reasonably examined. Attempts to collect data in these areas have led to the use of statistical estimates and the Bureau of the Budget's directives have recognized the compromise measures needed.

The General Accounting Office has finally recognized the impossibility of attempting to inspect and approve systems in operation. The emerging role of the General Accounting Office is to promulgate principles that provide a firm direction and put the burden on the agency to justify deviations to secure agreement as to the agency concepts (i.e., principles) on which their systems are to be built, to assist agencies in developing systems, to approve systems designs, and to make periodic on site inspections and reports on systems in operations.

The Civil Service Commission has taken steps to expand financial training; however, critical problems still remain at Agency level hiring qualified personnel.

The House Appropriations Committee has continued to resist consideration of budgets stated on any basis other than new obligation authority requested.

Finally, the high cost of installing and operating accrual systems has

been repeatedly demonstrated. The question that remains unanswered is whether installation costs are offset by savings once in operation.

# CHAPTER V

# CONCLUSIONS

Fifteen years after making accrual accounting a legislative requirement for all Federal agencies, and even more years since some managers, the central financial agencies, the Hoover Commissions, and other authoritative groups, and individuals recognized the need for better accounting, accrual systems and procedures have not been uniformly or satisfactorily adopted to all agencies. The question that begs answering is, why has progress been so slow?

This paper has pointed to many possible answers to that question; however, there is no single or simple solution. The problems that have been involved are interrelated in many respects. Certainly it is impossible to accurately measure and assign reliable causative indexes. Nonetheless, one basic problem has shown itself time and again as a root cause of the unsatisfactory results. That problem is the failure to provide a single source of leadership and coordination to the drive for accrual systems. The General Accounting Office was given and has exercised the responsibility for prescribing principles and assisting agencies in developing accounting systems. Executive involvement has been reluctant, belated, and insufficient. The fallacy in the arrangement that has existed is four fold.

First, the General Accounting Office is not a part of the management/executive chain. As such, they are not privy or involved in day to day management problems and decisions. Those problems they do encounter are bound to be viewed with the perspective of an outsider.

Secondly, being outside the management chain, the General Accounting Office is placed in the position of not being able to direct agency action or to take corrective action where necessary. The General Accounting Office has been able to stir some action through its role of reporting inactivity and deficiencies in systems to Congress; however, this coercive method is an ineffective substitute for dealing with the complex problems that have arisen over the years. Significantly, the General Accounting Office has recognized their inability to command action. Beginning in 1965, their method of operation has changed, first, by providing large scale assistance to the agencies, then by securing agreement on principles on which systems were to be based and finally, by eliminating the "systems in operation" approval that had become the focus of attention for the Hearings held by the House Committee on Government Operations.

Thirdly, by virtue of GAO's role as the inspection (i.e., audit) are of Congress, they are not in a position to elicit cooperation and openness from the agencies.

Fourthly, accounting is an adjunct of budgeting. That the Budget and Accounting Act of 1950 could talk about performance budget based on unit costs, without first considering the capabilities of the prevailing accounting systems to produce such data reflects ignorance as to the proper relation of accounting and budgeting. Budgeting relies on data provided by the accounting system to evaluate how well plans are being executed and in providing the base from which future budget estimates are formulated. The people who should be most concerned with good accounting are the people responsible for good budgeting, the Office of Management and Budget.

The existing accounting structure was criticized prior the Hoover Commissions. The first Hoover Commission then recommended the establishment of a separate Accountant General in the Treasury. In each case, the recommendation was seen as a challenge to Congressional power, and rejected primarily on that basis.

At the time of the First Hoover Commission, the Joint Financial Management Improvement Program was held forth as the institution that would provide the necessary leadership. While the program has served to coordinate solution of some mutual problems and as a center for publicizing reports of agency efforts, it has not served the role claimed for it in 1950.

The proper accounting structure would have given full responsibility to the Bureau of the Budget for prescribing accounting principles, assisting agencies, and if determined necessary, approving systems. The General Accounting Office would have then served as the auditor, reporting accounting shortcomings to the Bureau and Congress. While it is conjecture that such an arrangement would have produced better results, there can be no doubt that at least responsibility for the inadequate performance could be placed. This is not true under the present set up even though the Budget and Accounting Act of 1956 made the head of each agency responsible for adequate systems. "Each agency" is a rather vague, indefinite term when attempting to attach overall responsibility.

Congress must assume an equitable share of the blame for the accrued accounting failure. As already mentioned, the Congress repeatedly guarded against what they considered an "attack" on the General Accounting Office and rejected all proposals for basic structural changes.

Within Congress, the House Appropriations Committee has been a major deterrent to progress. Their constant emphasis on obligations in the budget process has had the natural effect of creating a preoccupation among agencies

with that concept. It is easy to say that both accrual and obligation accounting have their place, but as long as operating funds are requested and justified almost exclusively on an obligation basis, it is that concept that will have prominence, and be of the most concern to the manager.

The evidence also tends to indict the House Committee on Government Operations. Their interest in better accouting systems was commendable and stirred some long overdue action on the part of agencies. However, at times their emphasis seemed more with surface indicators (e.g., approval statistics) of progress than with the substantive problems involved. It is felt that this stress on figures led to many superficial efforts in submitting incomplete systems to beat the numbers game, and to comply with Congressional desires. The 1967 hearing particularly evidenced this in the cases of the Departments of Interior and Agriculture.

Almost unbelievably, considering the Committee's prominent role in conducting hearings on the 1950 and 1956 accounting legislation, no one on the Committee questioned the basic accounting structure as a cause of the failure. Between 1964 and 1968, the Committee heard evidence of inadequate training and personnel hiring policies, the lack of leadership provided by the Bureau of the Budget or any Executive organization, the failure of the Joint Financial Management Improvement Program, and the generally dismal record of accounting improvement. All of these things had been predicted by the First and Second Hoover Commissions, unless the accounting structure was changed. The Committee acknowledged that the events had occurred, but never reached or even considered the logical conclusion.

Certainly, the agencies have not been blameless. Their late appearance in this analysis is only because the author feels that if the correct accounting structure had been assumed that the foot dragging and lack of interest would

have been minimized. The facts; however, point to monumental disinterest and resistance on the part of agencies. Part of this resulted from the fact that "obligations" was a more familiar and understandable concept, part from doubt that cost benefits would offset the installation costs of new systems, and part from a lack of qualified personnel to perform the job.

The slowness of the agencies cannot be entirely attributed to management inattention and ineptness though. Even today when interest in accrual accounting is probably at a peak, the problems being encountered are of such a complex nature that attaching time limits to their solution has proven useless. Repeatedly, time limits have been set, only to be pushed back. Both the operating departments and the Central Agencies have been guilty of understating the scope of the problems and the amount of effort required to solve them. The result has been frustration and harassing efforts to fix blame.

The size, diversity, and geographical separation of agencies like the Departments of Defense, HEW, State, and Labor defy the identification and ready solution of problems. In many cases the problem is not so much with the Department as with civilian institutions receiving government benefits. The grant problem is typical. As willing as HEW might be, accruals cannot occur except on a statistical basis, unless thousands of universities, state governments, etc., have the capability and are willing to report the necessary data.

The same is true of accruals of "constructive delivery" in the Department of Defense. Here the problem is one of getting reports through tiers of contractors and subcontractors.

The agency also can't be held responsible for the time consuming system changes required and the confusion caused by introduction of the Planning, Programming, and Budgeting Systems, the rise to prominence of the accrued expenditure concept recommended by the President's Commission on Budget Concept, or

the creation of a third step in the General Accounting Office approval procedures.

The General Accounting Office has contributed to the slowness of agencies to taking positive action. Early accounting principles and procedures were vague to the point that agencies could readily get the idea that there was no push and that most of the accrual accounting procedures were optional. The generalities involved also contributed to misunderstandings between the General Accounting Office and the agencies which resulted in wasted effort and an atmosphere where points were argued.

The largest area of the General Accounting Office fault however, lay with the systems approval procedure that bottled up systems in a cumbersome review process requiring from one to three years, only for the agency to have to start afresh, if the system was not approved. The final and most impracticable step of reviewing systems in operation was eliminated by the 1968 changes to the General Accounting Office procedures, but not before doing its share to bog down accounting development.

As to the question of whether or not accrual accounting has a place in government operations, the answer is definitely yes. In spite of the absence in most government agencies of a profit motive or the requirement to match costs against revenue, there is still a need for good planning and the reliable measurement of how well plans are being performed. Only accrual accounting provides such a consistent measure for an agency involved in activities in which the incurrence of obligations, expenditures, disbursements, and costs is materially separated in time. In other activities there may well be no need for accrual data or only for modified data. As an example, an activity using primarily personnel services and consumable supplies that are issued and used simultaneously, benefits little from accrual accounting. Even in an activity

where costs are incurred in periods significantly beyond the creation of the obligation or in advance of the disbursement, use of the full accrual concept may not be desirable or practicable. The expense of contractors reporting unbilled performance appears excessive to any possible benefits to be gained.

In determining the extent to which accrual accounting is to be applied, all parties involved might do well to refresh their basic accounting by reading Robert N. Anthony who states, "Accounting is a system for recording and summarizing measurements of business facts, and as is the case with any measurement, an accounting figure is an approximation rather than a precisely accurate statement."[1]

The need for how precise the figure must then be should depend on the purpose to which the accounting figure is to serve and the cost and time involved in collecting it.

Only if each case is considered on its own merit, and compromises are developed where needed, will the accrual dilemma ever be solved.

---

[1] Robert N. Anthony, Management Accounting, Text and Cases (Homewood, Illinois: Richard D. Irwin, Inc., 1970), p. 8.

Appendix 1

Record of Approved Civil Department Accounting Systems[1]

| Department or Agency | May 1964 Systems Approved | % | June 1966 (Revised) Systems Approved | % | June 1967 Systems Approved | % | December 1968 Systems Approved | % |
|---|---|---|---|---|---|---|---|---|
| Agriculture | 3 of 11 | 27 | 4 of 15 | 27 | 5 of 15 | 33 | 5 of 14 | 36 |
| Commerce | 3 of 9 | 33 | 5 of 9 | 56 | 5 of 8 | 63 | 3 of 7 | 43 |
| HEW | 0 of 12 | - | 0 of 12 | - | 0 of 12 | - | 0 of 9 | - |
| Interior | 7 of 17 | 41 | 7 of 19 | 37 | 6 of 17 | 35 | 6 of 19 | 32 |
| Justice | 0 of 4 | - | 0 of 4 | - | 1 of 4 | 25 | 1 of 6 | 17 |
| Labor | 0 of 1 | - | 0 of 3 | - | 0 of 3 | - | 0 of 5 | - |
| State | 1 of 6 | 17 | 2 of 6 | 33 | 2 of 6 | 33 | 2 of 6 | 33 |
| Treasury | 3 of 12 | 25 | 4 of 19 | 21 | 4 of 18 | 22 | 8 of 18 | 22 |
| Post Office | 0 of 1 | - | 1 of 2 | 50 | 1 of 2 | 50 | 0 of 1 | - |
| Housing and Urban Development[2] | | | 0 of 1 | - | 0 of 1 | - | 0 of 1 | - |
| Transportation[3] | | | | | 4 of 10 | 40 | 2 of 6 | 33 |
| Independent | 22 of 49 | 45 | 30 of 51 | 59 | 30 of 49 | 61 | 33 of 45 | 73 |
| Other | 2 of 6 | 33 | 2 of 9 | 22 | 2 of 9 | 22 | 2 of 8 | 25 |
| Total Civil Departments | 41 of 128 | 32 | 55 of 150 | 37 | 60 of 154 | 39 | 62 of 147[4] | 42 |

Appendix 1

(Footnotes)

[1]Data is excerpted from the 1964 and 1966 Hearings of the House Committee on Government Operations on "Submission of Agency Accounting Systems for Approval", the 1967 Hearing on "Rate of Progress Being Made by Government Agencies in Meeting the Requirements of the Budget and Accounting Procedures Act of 1950" and the 1969 Report of the Comptroller General to Congress on "Progress and Problems Relating to Improvement of Federal Accounting Systems as of December 31, 1968."

[2]HUD came into existence November 9, 1965.

[3]This Department was created in November, 1966.

[4]The printed statistics on total systems subject to approval reflect the 147 figure. The individual statistics however add up to only 145.

# BIBLIOGRAPHY

## Public Documents

### <u>Congressional Documents</u>


U.S. Congress. Senate. Committee on the Expenditures in the Executive Departments. <u>To Improve Budgeting and Accounting, and Auditing, and Auditing Methods in the Federal Government.</u> <u>Hearings</u> before the Committee on Expenditures in the Executive Departments, Senate, 81st Cong., 2d sess., 1950.

U.S. Congress. Senate. Committee on Government Operations. <u>Budgeting and Accounting.</u> <u>Hearings</u> before a subcommittee of the Committee on Government Operations, Senate, 84th Cong., 2d sess., 1956.

U.S. Congress. House. <u>Improving Governmental Budgeting and Accounting Methods and Procedures.</u> H. Rept. 2734, 84th Cong., 2d sess., 1956.

U.S. Congress. House. Committee on Appropriations. <u>Administration Plan to Improve Congressional Control of the Budget.</u> <u>Hearings</u> before a subcommittee of the Committee on Appropriations, House of Representatives, 85th Cong., 1st sess., 1957.

U.S. Congress. House. Committee on Appropriations. <u>Administration Plan to Improve Congressional Control of the Budget.</u> H. Rept. 216, 85th Cong., 1st sess., 1957.

U.S. Congress. Senate. Committee on Government Operations. <u>Financial Management in the Federal Government.</u> S. Doc. 11, 87th Cong., 1st sess., 1961.

U.S. Congress. Joint Economic Committee. <u>The Federal Budget as an Economic Document.</u> S. Rept. 396, 88th Cong., 1st sess., 1963.

U.S. Congress. House. Committee on Government Operations. <u>Submission of Agency Accounting Systems for GAO Approval.</u> <u>Hearings</u> before a subcommittee of the Committee on Government Operations, House of Representatives, 88th Cong., 2d sess., 1964.

U.S. Congress. Joint Committee on the Organization of the Congress. <u>Organization of Congress.</u> <u>Hearings</u> before the Joint Economic Committee, 89th Cong., 1st sess., 1965.

U.S. Congress. House. Committee on Government Operations. Submissions of Agency Accounting Systems for GAO Approval. H. Rept. 179, 89th Cong., 1st sess., 1965.

U.S. Congress. House. Committee on Government Operations. Submission of Agency Accounting Systems for GAO Approval - 1966. Hearings before a subcommittee of the Committee on Government Operations, House of Representatives, 89th Cong., 2d sess., 1966.

U.S. Congress. Joint Economic Committee. Review of Report of the President's on Budget Concepts. Hearings before a subcommittee of the Joint Economic Committee, 90th Cong., 1st sess., 1967.

U.S. Congress. House. Committee on Government Operations. Rate of Progress Being Made by Government Agencies in Meeting the Requirements of the Budget and Accounting Procedures Act of 1950. Hearings before a subcommittee of the Committee on Government Operations, House of Representatives, 90th Cong., 1st sess., 1967.

U.S. Congress. House. Committee on Government Operations. Submission of Agency Accounting Systems for GAO Approval (Second Review). H. Rept. 1159, 90th Cong., 2d sess., 1968.

U.S. Congress. House. Committee on Government Operations. A Review of Labor Department Accounting Systems. Hearings before a subcommittee of the Committee on Government Operations, House of Representatives, 90th Cong., 2d sess., 1968.

U.S. Congress. House. Progress and Problems Relating to Improvement of Federal Agency Accounting Systems as of December 31, 1968, B - 115398. Report of the Comptroller General of the United States, 91st Cong., 1st sess., 1969.

U.S. Congress. House. Legislative Appropriation Bill, 1970. H.R. 91-487, 91st Cong., 1st sess., 1969.

U.S. Congress. House. Representatives Monagan, Holifield, and Mahon speaking on the Legislative Branch Appropriations Bill, 1970. H.R. 91-487, 91st Cong., 1st sess., September 19, 1969. Congressional Record, H 8218 - 8220, 8222.

## Departmental Directives and Memorandums

General Accounting Office. "Accounting Principles Memorandum No. 1." Washington, D.C., 1952.

Bureau of the Budget. "Analysis of the Budget and Accounting Report of the Commission on Organization of the Government." Washington, D.C., 1956.

General Accounting Office. Accounting Procedures for Federal Agencies. Washington, D.C.: Government Printing Office, 1962.

General Accounting Office. Accounting Procedures for Federal Agencies. Washington, D.C.: Government Printing Office, 1965.

The Comptroller General of the U.S. Accounting Principles and Standards for Federal Agencies. Washington, D.C., 1965 (with 1968 revisions).

Comptroller General of the United States. Letter to Heads of Departments and Agencies. "Accounting for Accrued Expenditures and Revenues." Washington, D.C., 1968.

Bureau of the Budget. "Bulletin No. 68-10." Washington, D.C. April 26, 1968.

Treasury Department. Transmittal Letter No. 18. "Treasury Fiscal Requirements Manual for Guidance of Departments and Agencies." Washington, D.C., June 20, 1968.

Bureau of the Budget. "Bulletin No. 68-10, Supplement No. 1." Washington, D.C., July 1, 1969.

General Accounting Office. Accounting Procedures for Federal Agencies. Washington, D.C.: Government Printing Office, 1969.

General Accounting Office. Frequently Asked Questions About Accrual Accounting in the Federal Government. Washington, D.C.: Government Printing Office, 1970.

Reports

Report of the Commission on Organization of the Executive Branch of the Government. Budgeting and Accounting. Herbert Hoover, chairman. Washington, D.C.: Government Printing Office, 1949.

Task Force. Report to the Commission on Organization of the Executive Branch of the Government. Fiscal, Budgeting and Accounting Activities. Washington, D.C.: Government Printing Office, 1949.

Report of the Commission on Organization of the Executive Branch of the Government. Budget and Accounting. Herbert Hoover, chairman. Washington, D.C.: Government Printing Office, 1955.

Task Force. Report to the Commission on Organiztion of the Executive Branch of the Government. Budget and Accounting. Washington, D.C.: Government Printing Office, 1955.

Joint Program to Improve Accounting in the Federal Government. 8th Annual Progress Report. Washington, D.C.: Government Printing Office, 1956.

Joint Financial Improvement Program. 15 Years of Progress. Washington, D.C.: Government Printing Office, 1963.

Joint Financial Management Improvement Program. Annual Report fiscal year 1965. Washington, D.C.: Government Printing Office, 1966.

Joint Financial Management Improvement Program. Annual Report fiscal year 1966. Washington, D.C.: Government Printing Office, 1967.

Report of the President's Commission on Budget Concepts. David M. Kennedy, chairman. Washington, D.C.: Government Printing Office, 1967.

President's Commission on Budget Concepts. Staff Papers and Other Materials Reviewed by the President's Commission. Washington, D.C.: Government Printing Office, 1967.

Joint Financial Management Improvement Program. Annual Report fiscal year 1967. Washington, D.C.: Government Printing Office, 1968.

Joint Financial Management Program. 20th Annual Report. Washington, D.C.: Government Printing Office, 1968.

Interagency Study Group. Report of the Interagency Study Group on Contractor Reporting for Purposes of Federal Accounting and Reporting of Accrued Expenditures. Washington, D.C.: 1968.

Joint Financial Management Improvement Program. 1969 Annual Report. Washington, D.C.: Government Printing Office, 1969.

Report of the Blue Ribbon Defense Panel to the President and the Secretary of Defense on the Department of Defense. Gilbert W. Fitzhugh, chairman, Washington, D.C.: Government Printing Office, 1970.

DOD Special Study Group. Report of the Group. Defense Contractor Constructive Delivery (Accrual Accounting Implementation). Washington, D.C., 1970.

The Comptroller General of the United States. Status, Progress and Problems in Federal Agency Accounting, 1969 Annual Report, Washington, D.C., 1970.

## Books

Anthony, Robert N. Management Accounting Text and Cases. Homewood, Illinois: Richard D. Irwin, Inc., 1970.

Bartelt, E. F. Accounting Procedures of the United States Government. Chicago: Public Administration Service, 1941.

Burkhead, Jesse. Government Budgeting. New York: John Wiley and Sons, Inc., 1956.

Kohler, Eric L., and Wright, Howard W. Accounting in the Federal Government. Englewood Cliffs, New Jersey: Prentice - Hall, Inc., 1956.

Mikesell, R. M. and Hay, Leon E. Governmental Accounting. 4th ed.; Homewood, Illinois: Richard D. Irwin, Inc., 1969.

Morey, Lloyd, and Hackett, Robert P. Fundamentals of Governmental Accounting. New York: John Wiley and Sons, Inc., 1942.

Smithies, Arthur. The Budgetary Process in the United States. New York: McGraw - Hill Book Company, 1955.

## Articles and Periodicals

Cato, Erle. "Accrued Cost, not 'Accrued Expenditures' Is the Answer for Government." Accounting Review, (July, 1959), pp. 393-398.

Harrill, E. Reece. "Cost Accounting and Control in Government." Management Controls, (December, 1968), pp. 265-269.

Morse, Ellsworth H., Jr. "Review and Approval of Agency Accounting Systems." The Federal Accountant, (Fall, 1966-7), pp. 5-29.

Morse, Ellsworth H., Jr. "The Planning-Programming-Budgeting System and the Congress." The Federal Accountant, (September, 1969), pp. 24-42.

Tiller, Carl W. "Accrual Accounting, and Budgeting for the Government." The Federal Accountant, XIX, (March, 1970), pp. 73-91.

Tiller, Carl W. "Implementing the Budget Concepts Report." The Federal Accountant, XVI, (December, 1967), pp. 34-47.

Tiller, Carl W. "Why Accrual Accounting?" Defense Management Journal, V, (Summer, 1969), pp. 29-32.

Trueblood, Robert M., "The Report of the President's Commission on Budget Concepts." The Federal Accountant, (June, 1968), pp. 4-15.

"AICPA Opposes Part of Defense Panel Suggestions." Journal of Accounting. October, 1970, pp. 11-12.

## Unpublished Material

Anthony, Robert N. "Closing the Loop." Address delivered to the Financial Management Roundtable, Washington, D.C., October 25, 1966.

Frese, Walter F. "The Management Accountant." Address delivered to the Management Engineering Naval Reserve Company, Department of the Navy, Washington, D.C., April 4, 1956.

Jobe, Larry A. "Financial Management in the Federal Government 'Are We Doing Less With More?'" Address delivered at the 19th Annual National Symposium of the Federal Government Accountant's Association, Miami Beach, Florida, June 19, 1970.

Morse, Ellsworth H., Jr. "The Report of the President's Commission on Budget Concepts in Retrospect." Address presented at the 10th Annual Eastern Regional Conference of the Planning Executives Institute, Washington, D.C., October 16, 1970.

Morse, Ellsworth H., Jr. "The Accounting Function and Program Budgeting." Address presented at seminar on Accounting under Program Budgeting sponsored by State Governmental Accountants Association of Michigan, Michigan State University, East Lansing, Michigan, April 6, 1967.

Pelej, Joseph. "Management Accounting in Industry." Address delivered at a meeting of the Federal Government Accountants Association, Washington, D.C., December 10, 1959.

## Interviews

Cooley, John. Director. Office of Accounting Policy. Department of Defense. Private interview held at the Department of Defense, Washington, D.C., December, 1970.

Lascara, V.A. Rear Admiral. Assistant Comptroller. Financial Management Service. Department of Navy. Lecture given at the George Washington University, November 9, 1970.

Mosso, L.D. Deputy Commissioner. Bureau of Accounts. Treasury Department. Private interview held at the Treasury Department Annex, Washington, D.C., December, 1970.

## Other

Letter from National Security Industrial Association to the Director of the Bureau of the Budget. Washington, D.C., December 26, 1968.

Richard Nixon. Memorandum For: The Director of the Bureau of the Budget, The Secretary of the Treasury, The Chairman of the Council of Economic Advisers. Washington, D.C., Fevruary 22, 1969.

Letter from the Secretary of the Treasury, Director of the Bureau of the Budget, Chairman of the Council of Economic Advisors, and Comptroller General of the United States to Head of Departments and agencies. Washington, D.C., March 10, 1970.

Letter from the Director of the Office of Management and Budget to the Secretary of Defense. Washington, D.C., September 15, 1970.

Robert N. Anthony. Letter to Melvin R. Laird, Secretary of Defense. Harvard University, Boston, Massachusetts, September 17, 1970.

Beckington, H. L. Brigadier General. Memorandum to Chief of Staff, United States Marine Corps. Washington, D.C., October 8, 1970.

Letter from Howard W. Wright to the Secretary of Defense. College Park, Maryland, October 12, 1970.